

**BEFORE THE WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION	:	DOCKETS UE-240004 and UG-240005
	:	(<i>Consolidated</i>)
Complainant,	:	
v.	:	PETITION TO INTERVENE OF THE
	:	FRED MEYER STORES INC. AND
PUGET SOUND ENERGY	:	QUALITY FOOD CENTERS,
Respondent.	:	DIVISIONS OF THE KROGER CO.

**POST-HEARING BRIEF OF
THE KROGER CO.**

I. INTRODUCTION

The Kroger Co., on behalf of its Fred Meyer Stores and Quality Food Centers (“Kroger”) divisions hereby submits this Post-Hearing Brief in support of its recommendation to the Washington Utilities and Transportation Commission (“Commission”). Kroger has focused solely on the issue of the Schedule 26 electric rate design in this proceeding.

II. ARGUMENT

SCHEDULE 26 ELECTRIC RATE DESIGN

a. Puget Sound Energy’s (“PSE”) Proposed Rate Design For Schedule 26 Is Out of Step With PSE’s Own Cost of Service Evidence.

PSE’s proposed rate design for Schedule 26 is presented in the Direct Testimony of its witness, Christopher T. Mickelson.¹ Table JB-1,² below, summarizes the Company’s proposed Schedule 26 rates.³

¹ Prefiled Direct Testimony of Christopher T. Michelson, p. 28-37.

² Prefiled Response Testimony of Justin Bieber, p. 5.

³ *Id.*

**Table JB-1
PSE Proposed Schedule 26 Rates**

	Units	Test Year	MYRP 2025	MYRP 2026
Basic Charge	Bills	\$109.08	\$141.80	\$184.35
Energy Charge	kWh	\$0.057457	\$0.072321	\$0.072173
Winter Demand	kW	\$12.23	\$15.90	\$20.67
Summer Demand	kW	\$8.15	\$10.60	\$13.77

As explained in the Response Testimony of Kroger witness Justin Bieber,⁴ although PSE’s rate design proposal does make some movement to better align rates with cost causation, the proposed Schedule 26 rate design continues to significantly understate the customer and demand-related charges relative to the underlying costs while overstating the energy-related revenues. Table JB-2⁵ below compares PSE’s proposed Schedule 26 revenues relative to total cost by classification compared to the underlying cost by classification in PSE’s proposed electric cost of service study.

**Table JB-2⁶
PSE’s Proposed Schedule 26
Proportion of Costs and Revenues by Classification**

	Cost of Service	MYRP 2025	MYRP 2026
Customer	7.9%	0.9%	1.2%
Energy	54.2%	68.9%	63.0%
Demand	37.9%	30.2%	35.9%
Total	100.0%	100.0%	100.0%

As can be seen in Table JB-2 above, the proposed customer and demand revenues are well below PSE’s underlying cost of service while the energy charges are greater than cost.

⁴ *Id.*

⁵ *Id.*

⁶ *Id.*, p. 6. The proportion of costs and revenues by classification in Table JB-2 above were derived from PSE’s electric cost of service study with one adjustment to remove the non-firm energy sales from the energy-related cost. Specifically, Mr. Bieber started with PSE’s proposed costs by classification and subtracted the non-firm sales from the energy-related cost of service. This adjustment was necessary to account for the fact that the Company receives revenues for these non-firm sales that offset the necessary revenue requirement to be recovered through base rates. Mr. Bieber then calculated the relative proportion of customer, energy, and demand related costs relative to the total cost of service.

Despite Mr. Mickelson's claim that PSE's proposed basic charge is cost-based,⁷ the proposed basic charge for Schedule 26 is substantially below cost. Mr. Mickelson explains that the basic charge is intended to cover a subset of customer-related costs including the cost of meters, service drops, meter reading, meter maintenance, and billing.⁸ According to PSE's electric cost of service study, the Schedule 26 cost-based basic charge would be \$566.02,⁹ which is substantially higher than the proposed Schedule 26 basic charges of \$141.80 for MYRP 2025 and \$184.35 for MYRP 2026.

For a given rate schedule such as Schedule 26, when demand charges are set below cost, and energy charges are set above cost, those customers with relatively higher load factors are required to subsidize the lower load factor customers within the class. Similarly, when customer charges are set below cost, relatively larger customers are required to subsidize the relatively smaller customers within the class.¹⁰ Aligning rate design with underlying cost causation improves efficiency because it sends proper price signals. For example, setting a demand charge below the cost of demand understates the economic cost of demand-related assets, which in turn distorts consumption decisions, and calls forth a greater level of investment in fixed assets than is economically desirable. At the same time, aligning rate design with cost causation is important for ensuring equity among customers, because properly aligning charges with costs minimizes cross-subsidies among customers.¹¹

While it is not always possible to design rates to recover 100% of customer-related costs through the basic service charge, 100% of energy costs through energy charges, and 100% of

⁷ Prefiled Direct Testimony of Christopher T. Michelson, p. 31.

⁸ *Id.*

⁹ See 240004-05-PSE-WP-CTM-5-COS-Model-24GRC-02-2024.xlsx, 'Basic Charge' tab, line 51.

¹⁰ Prefiled Response Testimony of Justin Bieber, p. 7.

¹¹ *Id.*, pp. 7-8.

demand-related costs through demand charges; Kroger believes that PSE's Schedule 26 designs can move a bit closer to cost causation than what is proposed by the Company in this case.

b. Kroger Recommends That The Commission Make Minor Adjustments To PSE's Proposed Rate Design for Schedule 26 In Order To Move Marginally Closer To A Cost-Based Rate Design.

As stated above, ideally demand-related charges, energy-related charges, and customer charges would be aligned with the respective underlying cost components. However, in some circumstances, full movement towards cost-based rates in a single step should be tempered to mitigate potential intra-class rate impacts and take into consideration the well-accepted rate making principle of gradualism. Therefore, Kroger recommends moderate changes to PSE's proposed Schedule 26 rate design that will make progress towards aligning the rate design with the underlying costs while also employing gradualism and mitigating the intra-class rate impacts that would result from a more significant movement towards cost-based rates at this time. The only other Schedule 26 customer to weigh in on Kroger's proposal, Walmart Inc., indicated in cross-answering testimony that they support Kroger's proposal.¹²

Given the circumstances of this case, Mr. Bieber argued that the rate increase for Schedule 26 should be accomplished by increasing the customer and demand charges relative to the Company's proposed rates and decreasing the proposed energy charge. Kroger's recommendation would be revenue neutral relative to the Company's proposed rate design for Schedule 26 and will not have any impact on any other rate schedules. The revenue verification for this rate design was presented in Exhibit JB-2 (Attachment 1) and is summarized in Table JB-3 below.¹³

¹² In Cross-Answering Testimony, Walmart Inc. witness Jaime McGovern states: "*The Commission should approve Fred Meyer's rate design proposal for Schedule 26 at the Company's proposed revenue requirement. However, if the Commission approves a lower revenue requirement for Schedule 26 than that proposed by the Company, the Commission should first start with Fred Meyer's proposed base rate charges and apply the revenue requirement reduction to the energy charge only.*" At p. 20.

¹³ *Id.*, p. 9. See also Prefiled Response Testimony of Justin Bieber Exhibit JB-2 for complete revenue verification.

**Table JB-3
Kroger Proposed Schedule 26 Rate Design Compared to PSE Rates
At PSE’s Proposed Revenue Requirement and Revenue Allocation**

	Units	Test Year	PSE		Kroger	
			MYRP 2025	MYRP 2026	MYRP 2025	MYRP 2026
Basic Charge	Bills	\$109.08	\$141.80	\$184.35	\$218.16	\$436.32
Energy Charge	kWh	\$0.057457	\$0.072321	\$0.072173	\$0.071114	\$0.068453
Winter Demand	kW	\$12.23	\$15.90	\$20.67	\$16.27	\$21.63
Summer Demand	kW	\$8.15	\$10.60	\$13.77	\$10.84	\$14.42

Mr. Bieber’s proposed rate design would improve the alignment between charges and the underlying cost components by increasing the recovery of customer and demand-related costs through the customer and demand charges while decreasing revenue recovery through variable energy charges.

To be clear, Mr. Bieber’s proposed improvements to the Schedule 26 rate design would not result in cost-based rates. However, they would improve the alignment between the charges and underlying costs. This is an intentional component of Mr. Bieber’s proposal that employs gradualism to mitigate the intra-class rate impacts that may result from a more significant movement towards cost at this time.¹⁴

Table JB-4¹⁵ below shows the Schedule 26 rate schedule revenues relative to total costs by classification that would result from Mr. Bieber’s recommended rate design, at PSE’s proposed revenue requirement.

**Table JB-4
Kroger Proposed Schedule 26
Proportion of Costs and Revenues by Classification**

	Cost of Service	MYRP 2025	MYRP 2026
Customer	7.9%	1.3%	2.8%
Energy	54.2%	67.7%	59.7%
Demand	37.9%	30.9%	37.5%
Total	100.0%	100.0%	100.0%

¹⁴ *Id.*, p. 10.

¹⁵ *Id.*

And Table JB-5¹⁶ below provides the classification of revenues relative to total cost for my recommended Schedule 26 rate design compared to PSE’s proposed rates. As can be seen in Table JB-5, these recommended modifications to the rate design would make gradual movement towards aligning rates with the underlying cost components.

**Table JB-5
PSE and Kroger Proposed Schedule 26
Proportion of Costs and Revenues by Classification**

	Cost of Service	PSE		Kroger	
		MYRP 2025	MYRP 2026	MYRP 2025	MYRP 2026
Customer	7.9%	0.9%	1.2%	1.3%	2.8%
Energy	54.2%	68.9%	63.0%	67.7%	59.7%
Demand	37.9%	30.2%	35.9%	30.9%	37.5%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

In order to ensure that the Commission has all of the information that it needs to assess Kroger’s recommendation in this case, Mr. Bieber prepared a bill impact analysis for his recommended changes to the Schedule 26 rate design. Mr. Bieber’s impact analysis is presented in Exhibit JB-3 (Attachment 2) and illustrates the total bill impacts to customers that would result from his recommended Schedule 26 rate design at the Company’s proposed revenue requirement. The bill impacts for the various customer load profiles lie within a relatively small range relative to the class average rate increase for each year of the MYRP.

Finally, Mr. Bieber’s proposed Schedule 26 rate design was calculated using PSE’s proposed revenue requirement, but to the extent that the Commission approves a lower revenue target, Kroger recommends that each of its recommended base rate charges contained in Exhibit JB-2, and summarized in Table JB-3, should be reduced by an equal percentage amount in order to recover the approved revenue target.

¹⁶ *Id.*, p. 11.

DATED this 4th day of December, 2024.

Respectfully submitted,

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ATTACHMENT 1

Kroger Proposed Schedule 26 Revenue Verification
At Puget Sound Energy's Proposed Revenue Requirement and Revenue Allocation

Line No.	Charges	Bill Determinants			Rates			Revenues (Proposed Rates)	
		Test Year	MYRP 2025	MYRP 2026	Test Year	MYRP 2025	MYRP 2026	MYRP 2025	MYRP 2026
1	<u>SCHEDULES 12 & 26</u>								
2	Secondary Voltage Large Demand General Service								
3									
4	Basic Charge	10,443	12,833	14,912	\$ 109.08	\$ 218.16	\$ 436.32	\$ 2,799,636	\$ 6,506,425
5	Energy Charges								
6	All kWh	1,799,236,030	2,001,418,769	2,044,052,903	\$ 0.057457	\$ 0.071114	\$ 0.068453	\$ 142,329,227	\$ 139,922,020
7	Subtotal	1,799,236,030	2,001,418,769	2,044,052,903				\$142,329,227	\$139,922,020
8	Temperature Adjustment	(11,237,911)	Included in volumes above		\$ 0.084231			\$ -	\$ -
9	Unbilled	13,270,755	Included in volumes above		\$ 0.082366			\$ -	\$ -
10	Subtotal	1,801,268,874	2,001,418,769	2,044,052,903				\$142,329,227	\$139,922,020
11	Demand Charges								
12	Winter Demand (Oct to Mar)	2,145,569	2,204,134	2,242,798	\$ 12.23	\$ 16.27	\$ 21.63	\$ 35,852,216	\$ 48,519,893
13	Summer Demand (Apr to Sep)	2,227,459	2,310,654	2,352,216	\$ 8.15	\$ 10.84	\$ 14.42	\$ 25,046,332	\$ 33,910,805
14	Subtotal	4,373,028	4,514,787	4,595,014				\$60,898,548	\$82,430,698
15									
16	Reactive Power	716,546,266	798,755,477	814,488,448	\$ 0.00130	\$ 0.00169	\$ 0.00220	\$ 1,349,897	\$ 1,789,431
17									
18	Total							\$207,377,308	\$230,648,573
19	<u>SCHEDULES 12 & 26 (Conjunctive Demand Service Option)</u>								
20	Secondary Voltage Large Demand General Service								
21									
22	Conjunctive Delivery Demand								
23	Winter Demand (Oct to Mar)	97,882	110,140	112,072	\$ 5.79	\$ 8.95	\$ 11.90	\$ 985,341	\$ 1,333,492
24	Summer Demand (Apr to Sep)	97,918	111,218	113,218	\$ 3.86	\$ 5.96	\$ 7.93	\$ 663,050	\$ 897,719
25	Subtotal	195,800	221,358	225,291				\$1,648,391	\$2,231,210
26									
27	Conjunctive Maximum Demand								
28	Winter Demand (Oct to Mar)	73,992	83,258	84,719	\$ 6.44	\$ 7.32	\$ 9.74	\$ 609,422	\$ 824,750
29	Summer Demand (Apr to Sep)	84,471	95,944	97,670	\$ 4.29	\$ 4.88	\$ 6.49	\$ 467,995	\$ 633,629
30	Subtotal	158,463	179,203	182,389				\$1,077,417	\$1,458,379
31									
32	Total							\$2,725,808	\$3,689,589

Kroger Proposed Schedule 26 Revenue Verification
At Puget Sound Energy's Proposed Revenue Requirement and Revenue Allocation

Line No.	Charges	Bill Determinants			Rates			Revenues (Proposed Rates)	
		Test Year	MYRP 2025	MYRP 2026	Test Year	MYRP 2025	MYRP 2026	MYRP 2025	MYRP 2026
33	SCHEDULE 26P								
34	Secondary Voltage Large Demand General Service								
35	Basic Charge	23	28	33	\$ 109.08	\$ 218.16	\$ 436.32	\$ 6,180	\$ 14,362
36	Primary Adder	23	28	33	\$ 249.03	\$ 498.06	\$ 996.12	\$ 14,108	\$ 32,788
37	Subtotal				\$ 358.11	\$ 716.22	\$ 1,432.44	\$20,288	\$47,149
38	Energy Charges								
39	All kWh	11,143,500	12,472,962	12,738,660	\$ 0.056055	\$ 0.069712	\$ 0.067051	\$ 869,517	\$ 854,143
40	Subtotal	11,143,500	12,472,962	12,738,660	\$ 0.056055	\$ 0.069712	\$ 0.067051	\$869,517	\$854,143
41	Temperature Adjustment	0	0	0				\$ -	\$ -
42	Unbilled	0	0	0				\$ -	\$ -
43	Subtotal	11,143,500	12,472,962	12,738,660				\$869,517	\$854,143
44	Demand Charges								
45	Winter Demand (Oct to Mar)	14,873	16,736	17,029	\$ 11.98	\$ 15.93	\$ 21.19	\$ 266,655	\$ 360,873
46	Summer Demand (Apr to Sep)	10,732	12,190	12,409	\$ 7.90	\$ 10.51	\$ 13.97	\$ 128,077	\$ 173,406
47	Subtotal	25,605	28,925	29,438				\$394,732	\$534,279
48									
49									
50	Reactive Power	3,222,826	3,608,812	3,679,894	\$ 0.00127	\$ 0.00	\$ 0.00	\$ 5,958	\$ 7,898
51	Subtotal				\$ 0.00127	\$ 0.00165	\$ 0.00215	\$5,958	\$7,898
52									
53	Total							\$1,290,495	\$1,443,469

ATTACHMENT 2

Schedule 26 Bill Impacts at Kroger Proposed Rates
At Puget Sound Energy's Proposed Revenue Requirement and Revenue Allocation

Line No	Demand (KW)	(Equiv Hours)	kWh	Monthly Billing			Percent	
				Current	Proposed MYRP 2025	Proposed MYRP 2026	Difference MYRP 2025	Difference MYRP 2026
1	350	300	105,000	\$12,229	\$13,960	\$15,645	14.1%	12.1%
2	350	500	175,000	\$17,940	\$19,872	\$21,385	10.8%	7.6%
3	350	700	245,000	\$23,651	\$25,785	\$27,125	9.0%	5.2%
4								
5	400	300	120,000	\$13,961	\$15,923	\$17,817	14.1%	11.9%
6	400	500	200,000	\$20,487	\$22,680	\$24,378	10.7%	7.5%
7	400	700	280,000	\$27,014	\$29,438	\$30,938	9.0%	5.1%
8								
9	500	300	150,000	\$17,424	\$19,849	\$22,163	13.9%	11.7%
10	500	500	250,000	\$25,582	\$28,296	\$30,363	10.6%	7.3%
11	500	700	350,000	\$33,740	\$36,742	\$38,563	8.9%	5.0%
12								
13	600	300	180,000	\$20,887	\$23,775	\$26,508	13.8%	11.5%
14	600	500	300,000	\$30,676	\$33,911	\$36,348	10.5%	7.2%
15	600	700	420,000	\$40,466	\$44,047	\$46,188	8.8%	4.9%
16								
17	700	300	210,000	\$24,349	\$27,701	\$30,853	13.8%	11.4%
18	700	500	350,000	\$35,771	\$39,527	\$42,333	10.5%	7.1%
19	700	700	490,000	\$47,192	\$51,352	\$53,814	8.8%	4.8%
20								
21	800	300	240,000	\$27,812	\$31,627	\$35,199	13.7%	11.3%
22	800	500	400,000	\$40,865	\$45,142	\$48,319	10.5%	7.0%
23	800	700	560,000	\$53,919	\$58,657	\$61,439	8.8%	4.7%
24								
25	1000	300	300,000	\$34,738	\$39,480	\$43,889	13.6%	11.2%
26	1000	500	500,000	\$51,055	\$56,373	\$60,289	10.4%	6.9%
27	1000	700	700,000	\$67,371	\$73,267	\$76,690	8.8%	4.7%