

**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND	)	
TRANSPORTATION COMMISSION,	)	
	)	
Complainant,	)	
	)	DOCKETS UE-170033 and
v.	)	UG-170034 (Consolidated)
	)	
PUGET SOUND ENERGY,	)	
	)	
Respondent.	)	
_____	)	

**CROSS-ANSWERING TESTIMONY OF MICHAEL P. GORMAN  
ON BEHALF OF  
THE INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES**

**August 9, 2017**

**TABLE OF CONTENTS**

	<u>Page</u>
<b>I. SUMMARY .....</b>	<b>1</b>
<b>II. RESPONSE TO STAFF WITNESSES JING LIU AND JASON BALL.....</b>	<b>2</b>
<b>II.A. Rate Design Schedules 40, 46 and 49.....</b>	<b>2</b>
<b>II.B. Revenue Spread .....</b>	<b>3</b>
<b>IV. RESPONSE TO PUBLIC COUNSEL WITNESS GLENN WATKINS .....</b>	<b>5</b>
<b>III. RESPONSE TO STAFF WITNESS THOMAS E. SCHOOLEY .....</b>	<b>8</b>

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

2 **A.** Michael P. Gorman. My business address is 16690 Swingley Ridge Road, Suite 140,  
3 Chesterfield, MO 63017.

4 **Q. ARE YOU THE SAME MICHAEL P. GORMAN WHO PREVIOUSLY FILED**  
5 **TESTIMONY IN THIS PROCEEDING?**

6 **A.** Yes. On June 30, 2017, I filed Response Testimony on behalf of the Industrial  
7 Customers of Northwest Utilities (“ICNU”), an association of large industrial  
8 businesses, some of whom are customers of Puget Sound Energy (“PSE” or the  
9 “Company”).

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

11 **A.** I will respond to the following witnesses: Staff witnesses Jing Liu, Jason Ball, and  
12 Thomas E. Schooley, and Public Counsel witness Glenn Watkins.

13 **I. SUMMARY**

14 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS AND CONCLUSIONS.**

15 **A.** My recommendations and conclusions are summarized as follows:

- 16 1. I support Staff witnesses’ recommendations to replace decoupling for PSE large  
17 customers with a higher demand charge.
- 18 2. If the Commission ultimately authorizes a rate decrease in this case, customers that  
19 are above parity in the Company’s electric class cost of service study should see a  
20 larger decrease than the system average to bring these classes closer to their cost of  
21 service.
- 22 3. The Commission should reject Staff’s reasoning for supporting the Company’s  
23 ability to make an Expedited Rate Filing (“ERF”).
- 24 4. The Commission should reject Public Counsel witness Glenn Watkins’ proposed  
25 rate increases to Open Access delivery rate Schedule 449, and Standby Generation  
26 rate Schedule 459.

27 My failure to address other witnesses’ testimony should not be interpreted as  
28 support for their positions.

1 **II. RESPONSE TO STAFF WITNESSES JING LIU AND JASON BALL**

2 **II.A. Rate Design Schedules 40, 46 and 49**

3 **Q. DID STAFF WITNESSES LIU AND BALL MAKE RECOMMENDATIONS**  
4 **CONCERNING THE DESIGN OF RATE SCHEDULES 46 AND 49?**

5 **A.** Yes. Staff witness Ball recommends that rate Schedules 46 and 49 be adjusted to  
6 recover a greater amount of fixed costs in demand charges. He and Staff witness Liu  
7 conclude that this rate design will produce greater stability in the recovery of fixed costs,  
8 and, thus, justify the exemption of these rate schedules from PSE's decoupling  
9 mechanisms. They accurately observe that the purpose of decoupling is to stabilize the  
10 recovery of fixed costs, which is adequately accomplished with Mr. Ball's proposed rate  
11 design for Schedules 46 and 49, without including the Schedules in a decoupling  
12 mechanism.<sup>1/</sup>

13 **Q. WHAT IS YOUR RESPONSE TO THE STAFF WITNESSES' RATE DESIGN?**

14 **A.** As an alternative to eliminating decoupling for PSE, as I proposed in my Response  
15 Testimony, I support Staff's proposal to exclude Schedules 46 and 49 from the Schedule  
16 142 decoupling mechanism in favor of Mr. Ball's proposed rate design for these  
17 schedules. Large customers' demand billing units are more stable and less susceptible  
18 to variations due to weather and economic conditions. Therefore, recovering fixed costs  
19 in demand rates will stabilize PSE's revenue collection, and accomplish the revenue  
20 stabilization objective of a decoupling mechanism. Because customers can more  
21 accurately plan for their cost of electricity service without a decoupling mechanism,  
22 Staff's proposed rate design would produce a more balanced result for both the  
23 Company and its large customers by using a rate design which enhances revenue

---

<sup>1/</sup> Exh. No. JLB-1T at 54:3-10; Exh. No. JL-1CT at 31:3-10.

1 stability to recover fixed costs, as opposed to relying on a decoupling regulatory  
2 mechanism which makes it more difficult for large customers to plan and budget for  
3 their cost of electric service because the deferrals they will be subject to are more  
4 unpredictable. Staff's proposal with respect to Schedules 46 and 49 should be approved.

5 **Q. DO YOU HAVE ANY OTHER COMMENTS ON STAFF'S PROPOSAL?**

6 A. Yes. Staff's proposed rate design and exclusion from decoupling for Schedules 46 and  
7 49 should also be made to Schedule 40 if the Commission determines to retain this  
8 schedule. ICNU witness Bradley Mullins testifies in response to Staff's proposal to  
9 eliminate Schedule 40.

10 As PSE witness Piliaris testified in his direct and supplemental testimony, the  
11 production and transmission cost under Schedule 40 is tied to the demand charge in rate  
12 Schedule 49, adjusted for delivery voltage losses.<sup>2/</sup> As such, recovering all fixed costs  
13 and demand components for Schedules 46 and 49 should also apply to Schedule 40.  
14 Also, for the same reasons Schedules 46 and 49 should be exempt from the decoupling  
15 mechanism based on the Staff's fixed cost recovery rate design, so too should Schedule  
16 40 be exempt from decoupling.

17 **II.B. Revenue Spread**

18 **Q. DO YOU HAVE ANY COMMENTS CONCERNING STAFF'S PROPOSED**  
19 **REVENUE SPREAD?**

20 A. Yes. In his Direct Testimony, PSE witness Piliaris proposed applying the system  
21 average rate increase to schedules within five percent of parity, and an increase of 75%  
22 of the average to schedules that are more than 5% above parity. Staff witness Ball

---

<sup>2/</sup> Exh. No. JAP-1T at 53:16-20; Exh. No. JAP-34T at 2:15-17.

1 accepts PSE's methodology, but applies it to Staff's proposed revenue requirement,  
2 which results in an overall rate decrease. Thus, Mr. Ball is proposing to adjust the  
3 various rate schedule revenues based on either a uniform system average decrease, or  
4 75% of the uniform system average decrease. Doing so, as shown at page 15 of Mr.  
5 Ball's testimony under Table 2, results in rate schedules that are already above parity to  
6 move even farther above their cost of service, with parity ratios as high as 109% for  
7 Schedules 46 and 49 at proposed rates. Under Staff's proposed spread, Schedules 46  
8 and 49 will be further above parity than all other rate schedules.

9 **Q. DO YOU BELIEVE THAT STAFF'S PROPOSAL IS APPROPRIATE?**

10 **A.** No. If the Commission adopts Staff's claimed revenue requirement decrease, then  
11 Staff's proposed spread of a revenue decrease would not properly move classes toward  
12 cost of service. Further, with a revenue decrease, a more aggressive movement toward  
13 cost of service can be accomplished without creating a detrimental impact, or rate shock,  
14 on any specific rate schedule. Therefore, if a rate decrease is approved, I recommend  
15 that the Commission adjust all rate schedules to cost of service in this proceeding (other  
16 than the Retail Wheeling Class, for the reasons discussed below, and the Firm Resale  
17 Class). This would require an above system average revenue decrease to rate schedules  
18 that are above parity to reflect their rates being substantially above current cost of  
19 service, and a below system average revenue decrease to rate schedules that are below  
20 parity.

21 Alternatively, if the Commission still chooses a gradual step movement toward  
22 cost of service, then Staff's proposal for a 75% of system average decrease for schedules  
23 that are farthest above their cost of service should be revised. Those customers that are  
24 priced at above cost of service, and have a parity ratio greater than 105% of their cost

1 of service, should receive at least 100% of the system average decrease, and those  
2 customers that have parity ratios of less than 105% of their cost of service should receive  
3 a decrease of 75% of the system average decrease. This reverses Staff's position. This  
4 would be a more equitable spread of a revenue decrease, and would accomplish the  
5 objective of moving rate classes toward cost of service.

6 **IV. RESPONSE TO PUBLIC COUNSEL WITNESS GLENN WATKINS**

7 **Q. DO YOU HAVE CONCERNS ABOUT ANY OTHER PARTIES' RATE SPREAD**  
8 **PROPOSALS?**

9 **A.** Yes. Public Counsel witness Glenn Watkins proposes to increase rates for Schedules  
10 449/459 by 150 percent of the system average increase. Customers served under these  
11 schedules would see a 10.97 percent rate increase.<sup>3/</sup>

12 **Q. WHAT IS MR. WATKINS' RATIONALE FOR HIS PROPOSAL?**

13 **A.** Mr. Watkins notes that the parity ratio for Schedules 449/459 is at approximately 65%  
14 in the Company's electric cost of service study. He testifies that "[g]iven the desire to  
15 move those classes with parity ratios significantly below 100 percent closer to system  
16 parity, I see no reason for this class to sustain a significantly smaller increase than the  
17 jurisdictional system average."<sup>4/</sup>

18 **Q. IS THE COMPANY'S CLASS COST OF SERVICE STUDY AN ADEQUATE**  
19 **METHOD TO DETERMINE WHETHER OR NOT RATE SCHEDULES 449/459**  
20 **PRICES ARE REASONABLY CONSISTENT WITH THE COMPANY'S COST**  
21 **OF SERVICE?**

22 **A.** No. These rate structures are unique in the way they are designed, and pass through the  
23 Company's cost of providing service to the customers that take service under these rate

---

<sup>3/</sup> Exh. No. GAW-1T at 36:14-18.

<sup>4/</sup> Id. at 36:14-16.

1 schedules. The Company's class cost of service study measures cost based on system  
2 average cost and allocates these costs across rate classes for purposes of designing rates.  
3 However, rate Schedules 449/459 have rates that either directly pass-through the  
4 Company's cost of providing service, or directly allocate costs to these rate schedules.  
5 Therefore, the cost of service study simply is not a useful nor accurate tool to determine  
6 whether or not the charges for Schedules 449/459 are reasonably consistent with PSE's  
7 cost of providing service.

8 **Q. PLEASE DESCRIBE SCHEDULES 449/459.**

9 **A.** Schedule 449 was created in 2001 as part of a settlement between the Company and  
10 some of its large customers. The settlement resolved a complaint these customers filed  
11 that alleged the Company had not charged them just and reasonable rates during the  
12 Western Energy Crisis when power prices reached unprecedented levels.<sup>5/</sup> Schedules  
13 449/459 are retail wheeling schedules that allow these customers to purchase their  
14 electric commodity from third-party suppliers and have it delivered over the Company's  
15 transmission and distribution system.

16 Schedule 459 provides backup distribution service to certain customers on  
17 Schedule 449 who have installed self-generation to meet all or a portion of their load.

18 **Q. PLEASE FURTHER DESCRIBE WHY THE COMPANY'S COST OF SERVICE**  
19 **STUDY DOES NOT ACCURATELY MEASURE PSE'S COST OF PROVIDING**  
20 **SERVICE TO SCHEDULES 449/459.**

21 **A.** Unlike other retail customers of the Company, the vast majority of the charges under  
22 rate Schedules 449/459 are actually a pass-through of cost-based rates approved by the  
23 Federal Energy Regulatory Commission ("FERC"). As such, this rate schedule does

---

<sup>5/</sup> Air Liquide America Corp. et al. v. PSE, Docket Nos. UE-001952/UE-001959, 11th Supp. Order (Apr. 5, 2001).



1 not receive an allocated share of PSE's retail cost of production and transmission  
2 capacity service in a similar way as the other rate schedules. Rather, this rate schedule  
3 does not pay PSE production costs and receives a direct pass-through of PSE's FERC  
4 approved transmission service rates, as well as either direct assignment or a contractual  
5 allocation of PSE costs of service. The design of rate Schedules 449/459 is distinct and  
6 different from the other retail classes' cost of service, and therefore PSE's retail cost of  
7 service study does not produce an accurate gauge of whether Schedule 449/459 are  
8 priced at cost of service.

9 Again, the Company's cost of service study classifies Production, Transmission,  
10 Distribution, and Administrative and General costs, and allocates these costs to PSE's  
11 various rate schedules based on approved allocation factors. However, rate Schedules  
12 449/459 do not procure power production service from PSE, and therefore the  
13 methodology used to allocate retail production cost of service (production and  
14 transmission) services, does not accurately describe how this rate compensates PSE for  
15 services provided. Rather than paying a portion of the system average allocated  
16 production and transmission costs, rate Schedules 449/459 get no allocated production  
17 cost, and pays for transmission service based on PSE transmission charges and ancillary  
18 costs based on a direct pass-through of PSE's Open Access Transmission Tariff. This  
19 is a cost-based rate that is administered by the FERC<sup>6/</sup> and applied to Open Access cost  
20 of service. Schedules 449/459 customers have very little distribution costs because they  
21 are served almost exclusively at transmission voltage,<sup>7/</sup> but the distribution costs they  
22 do incur are collected via the Company's Schedule 62, which effectively leases a portion

---

<sup>6/</sup> PSE Schedule 449, Sheet No. 449-I.

<sup>7/</sup> Exh. No. JAP-7 at 2-3.

1 of the Company's substations and related equipment used to provide service to the  
2 customer.

3 Another factor that distinguishes this schedule from PSE's other schedules is  
4 that this tariff schedule also ensures that the customer fully pays for these costs because  
5 it imposes a termination charge that collects all unrecovered costs and decommissioning  
6 in the event the customer does not fulfill the terms of the agreement.<sup>8/</sup>

7 Schedules 449/459 customers also currently pay a distribution demand charge;  
8 however, PSE has proposed to eliminate this charge in favor of a significantly higher  
9 customer charge in order to simplify pricing for these customers.<sup>9/</sup> Finally, to the extent  
10 Schedules 449/459 customers have dedicated facilities, these are paid for pursuant to a  
11 separate service agreement with the Company.<sup>10/</sup> These costs represent the unique costs  
12 incurred by PSE in providing the service to these customers.<sup>11/</sup>

13 **Q. WHAT DO YOU RECOMMEND WITH RESPECT TO MR. WATKINS'**  
14 **PROPOSAL TO INCREASE SCHEDULES 449/459 RATES BY 150% OF THE**  
15 **AVERAGE RATE INCREASE?**

16 **A.** For the reasons discussed above, I recommend that the Commission reject this proposal.  
17 It is inconsistent with established cost-causation and cost-allocation principles and rests  
18 on a fundamental misunderstanding of how customers on Schedules 449/459  
19 compensate PSE for costs incurred under these rates.

20 **III. RESPONSE TO STAFF WITNESS THOMAS E. SCHOOLEY**

21 **Q. DO YOU HAVE ANY COMMENTS CONCERNING MR. SCHOOLEY'S**  
22 **DIRECT TESTIMONY?**

---

<sup>8/</sup> PSE Schedule 62, Sheet No. 62-D.

<sup>9/</sup> Exh. No. JAP-1T at 74:3-5; Exh. No. JAP-16 at 80.

<sup>10/</sup> PSE Schedule 449, Sheet No. 449-I.

<sup>11/</sup> Exh. No. JAP-1T at 74:17-18.

1 **A.** Yes. I am responding to Mr. Schooley’s testimony supporting the Expedited Rate Filing  
2 (“ERF”) proposal made by PSE in its initial filing.<sup>12/</sup> Unfortunately, it appears that Mr.  
3 Schooley is unjustifiably following PSE’s lead on this proposal. Like PSE, Mr.  
4 Schooley has not offered any justification in support of the ERF mechanism proposed  
5 by PSE. Hence, this mechanism should be rejected as unnecessary and unreasonable.

6 **Q. PLEASE PROVIDE A SUMMARY OF PSE’S USE OF AN EXPEDITED RATE**  
7 **FILING TO SET RATES.**

8 **A.** As noted by Mr. Schooley, the ERF was used to set PSE’s rates in 2013.<sup>13/</sup> These were  
9 highly contested cases that attempted to combine two multi-party settlements into one  
10 overarching proceeding.<sup>14/</sup> The settling parties were PSE, Commission Staff, and the  
11 Northwest Energy Coalition. ICNU, among others, requested that the Commission  
12 reject the settlements for numerous reasons

13 The multiparty settlements were centered around three principal “deals.” First,  
14 the settling parties agreed to terms regarding overall rate increases for PSE, and the use  
15 of its proposed ERF to set rates. Next, the settling parties agreed to terms regarding  
16 PSE’s use of a decoupling mechanism that included what is referred to as the “K-factor.”  
17 Finally, the settlement included a multi-year rate plan wherein PSE agreed to “stay out”  
18 and not seek general rate relief until 2016, but in exchange was provided with fixed 3%  
19 annual rate increases.

20 **Q. WHY IS THIS HISTORY IMPORTANT TO THIS CASE?**

---

<sup>12/</sup> Exh. No. TES-1T at 29-30.

<sup>13/</sup> Id. at 29:4-5; see also WUTC v. PSE, Docket Nos. UE-130137/UG-130138 (*consolidated*), Order 07 (June 25, 2013).

<sup>14/</sup> The initial settlement package also included an agreement dealing with PSE’s Coal Transition Power Purchase Agreement (“PPA”) with TransAlta, a Canadian company that owned and operated the Centralia coal-fired power plant.

1 A. It is important for many reasons. First, Mr. Schooley testifies that an ERF is appropriate  
2 for PSE given the facts of this case. It is not. The ERF was originally conceived by  
3 Staff to address regulatory lag and its potential impact upon the earnings of the  
4 Company.<sup>15/</sup> However, the Company's financial condition and ability to earn its  
5 authorized return have greatly improved since 2013. In fact, PSE has been very  
6 successful at earning a return that is higher than its authorized return, without an ERF,  
7 since 2015.<sup>16/</sup> As a result, the Company has been required to share these excessive  
8 earnings with ratepayers.<sup>17/</sup> Mr. Schooley provides these facts in his testimony, but  
9 ignores them to conclude the PSE deserves the additional earnings boost provided by  
10 an ERF.<sup>18/</sup>

11 In addition, the procedural context and supporting conditions encountered by the  
12 Commission when it made its 2013 decision are much different than in the present case.  
13 In 2013, PSE's ERF proposal was packaged with its decoupling program, and sweetened  
14 by its agreement to both a multi-year rate plan and an excessive earnings sharing  
15 mechanism. As a package, these elements formed the basis of the multi-party settlement  
16 between PSE, Staff and NWECA. For reasons stated in Order 06, the Commission  
17 rejected the settlement,<sup>19/</sup> but approved PSE's ERF and decoupling proposals by  
18 separate order (Order 07).<sup>20/</sup> Included in Order 07 were the approvals of the Company's  
19 rate plan and the 50/50 excessive earnings sharing requirement.<sup>21/</sup> In this case, the ERF

---

<sup>15/</sup> Docket Nos. UE-130137/UG-130138 (*consolidated*), Order 07 ¶¶ 33-34.

<sup>16/</sup> Exh. No. DAD-1T at 4.

<sup>17/</sup> Exh. No. TES-1T at 9-10.

<sup>18/</sup> In stark contrast, he also encourages the Commission to "reset the program" and "re-introduce PSE to the concept of risk," after considering PSE's over-earnings. Exh. No. TES-1T at 9-11.

<sup>19/</sup> Docket Nos. UE-130137/UG-130138 (*consolidated*), Order 06 ¶¶ 15-27 (June 25, 2013).

<sup>20/</sup> Docket Nos. UE-130137/UG-130138 (*consolidated*), Order 07 at 93-95.

<sup>21/</sup> *Id.* at 94.

1 is being offered by PSE as a stand-alone proposition, and not as an element of a multi-  
2 faceted settlement package. Furthermore, all of the conditions of settlement agreed to  
3 by PSE in 2013, such as the 50/50 excessive earnings sharing mechanism, are not  
4 advocated by PSE in this case.<sup>22/</sup> In sum, the Commission's 2013 decision to approve  
5 the ERF reflected the facts and circumstances presented at that time. These same facts  
6 and circumstances are not present in this case.

7 The best evidence of this is the fact that Staff recommends that the Commission  
8 reduce PSE's rates by 2.2%, or \$46 million dollars, in this case.<sup>23/</sup> This recommendation  
9 is clearly disjointed from Mr. Schooley's recommendation that the Company be allowed  
10 to file an ERF following this case. Apparently, the Company is to reduce rates to correct  
11 for *overearning*, but is then to update rates through the ERF shortly thereafter to mitigate  
12 *underearning* resulting from regulatory lag. This makes no sense.

13 **Q. DOES MR. SCHOOLEY CONSIDER THE IMPACT ON CUSTOMERS**  
14 **THROUGH USE OF AN ERF IN ASSESSING THE APPROPRIATENESS OF**  
15 **THIS PROGRAM?**

16 **A.** It does not appear so. Mr. Schooley does quote from the Commission's Order 07 at  
17 page 9 of his testimony noting that the multi-year rate plan approved in 2013 was  
18 designed to incent PSE to cut costs in order to allow it to earn its authorized rate of  
19 return. PSE now is in a position to accomplish this objective without an ERF. However,  
20 what is equally important is the Commission's recognition that efficiencies realized by  
21 PSE during the rate plan period ultimately mean rates to customers should be lower than

---

<sup>22/</sup> PSE is, however, advocating that the mechanism's sharing bands be adjusted to give the Company 50% more of the excessive earnings than it agreed to in 2013.

<sup>23/</sup> Exh. No. TES-1T at 3:21; Exh. No. MCC-1T at 4:1-2.

1 they otherwise would have been without PSE's incentive to reduce costs and the  
2 resulting increase in its overall return.

3 As such, extraordinary regulatory mechanisms should only be used if there is a  
4 need for balancing of interests for the competitive rates for customers, and providing  
5 the Company the mechanisms necessary to allow it to earn its authorized return. The  
6 ERF is not needed, and subjecting customers to unnecessary rate increases that  
7 ultimately may result in refunds through excess earnings adjustment later will constitute  
8 a regulatory mechanism that is not balanced.

9 **Q. PLEASE SUMMARIZE YOUR TESTIMONY ON MR. SCHOOLEY'S**  
10 **SUPPORT FOR THE ERF.**

11 **A.** Mr. Schooley seems to support the ERF simply because it agrees with his regulatory  
12 philosophy that it is an efficient way to reduce regulatory lag. He makes no attempt to  
13 justify its application to *this* case, however, or to explain how the mechanism would  
14 balance the interests of ratepayers and the Company should it be adopted. Nor does he  
15 attempt to reconcile the need for an ERF and PSE's ability to earn its authorized return.

16 From my reading of Order 07, it appears that the Commission was  
17 experimenting with innovative regulatory tools such as the ERF and rate plan to address  
18 PSE's recurring under-earnings and the constant filing of rate cases facing Staff and  
19 interested parties.<sup>24/</sup> For the reasons I present above, PSE's ability to earn its return is  
20 no longer in question. Furthermore, PSE is not offering to "stay out" and refrain from  
21 filing general rate cases if the ERF is approved. Without any evidence of regulatory  
22 lag, of which there can be none in this case given PSE's overearning, there is no basis  
23 for approval of an ERF.

---

<sup>24/</sup> Docket Nos. UE-130137/ UG-130138 (*consolidated*), Order 07 at 8-11.

1 **Q. DOES THIS CONCLUDE YOUR CROSS-ANSWERING TESTIMONY?**

2 **A.** Yes, it does.

\\doc\shares\prolawdocs\sdw\10411\testimony-bai\325663.docx