

EXHIBIT NO. _____ (AML-13T)
DOCKET NOS. UE-170033/UG-170034
2017 PSE GENERAL RATE CASE
WITNESS: AMANDA M. LEVIN

BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

PUGET SOUND ENERGY,

Respondent.

DOCKET NOS. UE-170033
and UG-170034 (*Consolidated*)

CROSS-ANSWERING TESTIMONY (NON-CONFIDENTIAL) OF

AMANDA M. LEVIN

ON BEHALF OF NORTHWEST ENERGY COALITION, RENEWABLE NORTHWEST,
AND NATURAL RESOURCES DEFENSE COUNCIL

August 9, 2017

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EXHIBIT LIST

- AML-13T Cross-Answering Testimony (Non-Confidential) of Amanda M. Levin
- AML-14 FEA Response to NWECC-RNW-NRDC Data Request No. 001
- AML-15 FEA Response to NWECC-RNW-NRDC Data Request No. 003
- AML-16 Direct Testimony of Paul Chernick, Case. No. 16-1852-EL-SSO (May 2, 2017), Public Utilities Council of Ohio (PUCO)
- AML-17 Rebuttal Testimony (Non-Confidential) of Ralph C. Cavanagh, Docket No. UE-121697
- AML-18 Morgan, Pamela, "A Decade of Decoupling for US Energy Utilities: Rate Impacts, Designs, and Observations" (November 2012)
- AML-19 Vilbert, Michael, Joseph B. Wharton, Charles Gibbons, Melanie Rosenberg, and Yang Wei Neo, "The impact of revenue decoupling on the cost of capital for electric utilities: an empirical investigation," BRATTLE GROUP, Prepared for The Energy Foundation (2014)

I. INTRODUCTION

Q. Are you the same Amanda M. Levin who provided in this proceeding Prefiled Direct Testimony, Exhibit No. ____ (AML-1T), and supporting exhibits on June 30, 2017, on behalf of the NW Energy Coalition (“the Coalition”)?

A. Yes.

Q. What is the purpose of this cross-answering testimony?

A. First, I respond to proposals concerning the classification of customer-related costs for residential electric service raised by witnesses for both Staff and Public Counsel. From this, I respond to Staff’s proposal to increase fixed charges for residential electric customers and concur with Public Counsel’s recommendation on the Basic Charge. I also respond to objections that have been raised by witnesses for the Industrial Customers of Northwest Utilities (ICNU), Kroger, and FEA to the continuation of the Company’s decoupling mechanism and related impacts on ROE and conservation efforts. I then respond to Public Counsel and Staff’s suggested revisions to the Company’s decoupling mechanism concerning the treatment of fixed power costs. Lastly, I address other rate design proposals from Staff and Public Counsel, including potential three-tier rate design methodologies and investigation into revising the first-tier block level.

II. BASIC CHARGE ISSUES

Q. Do you agree with Staff Witness Ball that “the Basic Customer Method should be revised to include the costs of line transformers”? (Exhibit No.____ (JLB-1T), p. 25)

A. No. As discussed in my direct testimony, line transformers should not be characterized as a customer-related cost.¹ Ball states that these line transformers are “essentially customer

¹ Direct Testimony and Exhibits of Amanda M. Levin, Exhibit No.____ (AML-1T), p. 5-7.

1 dedicated facilities,”² even if they serve five or six residential or small commercial customers.
2 However, this glosses over the variability in the number of customers *in the same rate class* a
3 transformer can serve. Transformers can serve one residential customer in a more rural area and
4 up to twenty residential customers in an urban setting. And in certain cases, such as a “mother-
5 in-law” apartment, no new transformer would be required to connect a customer. In addition, as
6 noted by Public Counsel Witness Watkins, transformers are fundamentally demand-driven,
7 “sized and installed based on peak load requirements.”³

8 The inclusion of Line Transformer costs as customer-related costs in both PSE’s and
9 Staff’s proposals should be rejected by this Commission.

10 **Q. Do you support Staff’s proposed electric basic charge? (Exhibit No.____ (JLB-1T),**
11 **p. 29)**

12 A. No. Staff’s preferred proposed electric basic charge would add a new minimum bill
13 component on top of the existing basic charge fee to achieve a *de facto* fixed monthly fee of
14 \$10.88. This is what Staff has determined is the customer-related monthly cost for residential
15 electric service.⁴ However, this determination hinges on the inclusion of line transformer costs.
16 As noted above, we oppose Staff’s and PSE’s efforts to recharacterize these line transformer
17 costs as customer-related.

18 As Staff notes in its Alternative Recommendations, “of note is that a minimum bill
19 component is not necessary in this alternative because the basic charge increase would be small,”⁵

21 _____
22 ² Direct Testimony and Exhibits of Jason L. Ball, Exhibit No.____ (JLB-1T), p. 26.

23 ³ Direct Testimony and Exhibits of Glenn A. Watkins, Exhibit No.____ (GAW-1T), p. 44.

24 ⁴ Direct Testimony and Exhibits of Jason L. Ball, Exhibit No.____ (JLB-1T), p. 29.

⁵ Staff increases the Basic Charge from \$7.49 to \$7.80 in this alternative.

1 and thus, sufficient, to recover the customer related costs exclusive of transformers.”⁶ If line
2 transformers costs are properly characterized as demand-related, there is no need to impose an
3 additional minimum bill component as Staff proposes. In addition, the existing basic charge is
4 likely sufficient to recover all true customer-related costs, and is possibly already even higher
5 than the direct residential customer cost.⁷

6 **Q. Do you support Public Counsel’s proposed electric basic charge? (Exhibit No.____**
7 **(GAW-1T), p. 51)**

8 A. Yes. Public Counsel proposes no increase in PSE’s basic monthly customer charge,
9 outside of a \$0.01 rounding from \$7.49 to \$7.50 to create a more logical rate. Public Counsel
10 also notes that there is actually justification for the fixed charge to be reduced to under \$6.00 a
11 month, though they decline to recommend a reduction for rate continuity purposes.⁸

12 **Q. Are there broader public policy reasons to avoid imposing higher fixed charges on**
13 **customers?**

14 A. Yes. High fixed charges can reduce customer incentives to conserve energy and promote
15 additional consumption since the volumetric rate, or incremental cost of consumption, is lower
16 than it would be with a smaller fixed charge component. Public Counsel Witness Watkins
17 provides an example of how a more extreme fixed pricing approach, Straight Fixed Variable
18 pricing, was adopted by federal regulators in the gas industry with the expressed intent to
19 promote additional consumption of natural gas.⁹ The Energy Project also notes that high fixed
20 charges “run counter to state policies and utility programs that promote energy efficiency and
21 _____

22 ⁶ Direct Testimony and Exhibits of Jason L. Ball, Exhibit No.____ (JLB-1T), p. 43.

23 ⁷ Direct Testimony and Exhibits of Glenn A. Watkins, Exhibit No.____ (GAW-1T), p. 49.

24 ⁸ *Id.*, p. 51.

25 ⁹ Direct Testimony and Exhibits of Glenn A. Watkins, Exhibit No.____ (GAW-1T), p. 50.

1 encourage customers to weatherize homes, purchase energy efficient appliances and reduce
2 usage in other ways.”¹⁰

3 In addition, higher fixed charges can make energy services less affordable, since a greater
4 portion of the bill is fixed and customers have less ability to reduce consumption to keep bills
5 low. These increases in the monthly fixed fees tend to have the biggest impact on low-income
6 and fixed-income households. Concerns about the impacts of high fixed charges on low-volume,
7 low-income customers have been raised in front of this Commission and across the country over
8 the past few years.¹¹ Commissions have been wary about raising these monthly fixed fees: in
9 2016, utility commissions around the country rejected or reduced 85% of proposals by electric
10 companies to increase fixed customer charges; in 2015, 91% of proposals were rejected or
11 reduced by utility commissions.¹²

12 III. CONTINUATION OF DECOUPLING MECHANISM

13 **Q. Do you agree with Witnesses Al-Jabir and Higgins that revenue decoupling**
14 **discourages customer efforts to pursue energy efficiency? (Exhibit No. ____ (AZA-**
15 **1T), p. 7; Exhibit No. ____ (KCH-1T), p. 15)**

16 A. No. System-wide revenue decoupling adjustments under the proposed mechanism could
17 go either up or down and would never exceed three or five percent; an individual’s or business’s
18 voluntary conservation efforts could easily yield tenfold greater savings. These witnesses have
19

20 ¹⁰ Direct Testimony and Exhibits of Shawn M. Collins, Exhibit No. ____ (SMC-1T), p. 20.

21 ¹¹ For example, one of the most recent cases is in Ohio. See Direct Testimony of Paul Chernick, Case. No.
22 16-1852-EL-SSO, filed May 2, 2017 in front of the Public Utilities Council of Ohio (PUCO). pgs. 16-23,
19-42 (Exhibit No. ____ (AML-16)).

23 ¹² This reflects 34 proceedings and 33 proceedings where increases to fixed charges for electric residential
24 customers were proposed in 2015 and 2016, respectively. Williams, Samantha, “They’re Ba-ack... But
Fixed Fee Hikes Still Getting Nixed”, February 2013, 2017, *NRDC Blog*,
<https://www.nrdc.org/experts/samantha-williams/theyre-ba-ack-fixed-fee-hikes-still-getting-nixed>

1 not provided or been able to cite evidence to back up their claim that revenue decoupling has
2 discouraged customer conservation efforts.¹³ On the other hand, there is evidence that the
3 decoupling mechanism has had no negative impact on customer incentives to conserve. Gil
4 Peach's third-year evaluation of PSE's decoupling mechanism found that the decoupling
5 adjustments were small enough to be within the normal range customers would expect.¹⁴ They
6 concluded that the decoupling adjustments were too small to negatively impact customer
7 incentives to conserve.¹⁵ In addition, PSE agreed to a 5 percent increase of the Company's
8 energy efficiency conservation targets as part of the approval of the Company's decoupling
9 mechanism. PSE has exceeded this higher level of savings consistently since decoupling and has
10 agreed to continue to achieve higher levels than statutorily required in future years.¹⁶

11 **Q. Does decoupling reduce the Company's incentive to control costs, as contended by**
12 **Witness Al-Jabir? (Exhibit No. ____ (AZA-1T), pg. 8)**

13 A. No. In fact, Gil Peach's third-party review found just the opposite. PSE's O&M costs
14 grew at a slower rate than the historical growth rate and at a slower rate than PSE expected
15 would occur in its ERF/decoupling proceedings.¹⁷ This finding fits with the logic submitted by
16 witnesses in previous proceedings.¹⁸ Decoupling provides assurance to PSE and its customers
17 that the utility will recover only authorized revenues. Without the mechanism, PSE's profit
18 would be tied both to sales growth and cost control. With the mechanism, controlling costs takes
19

20 ¹³ Exhibit No. ____ (AML-14), FEA Response to NWEC-RNW-NRDC Data Request No. 001.

21 ¹⁴ Direct Testimony and Exhibits of Jon A. Piliaris, Exhibit No. ____ (JAP-29), pg. 27.

22 ¹⁵ *Id.*, pg. 20.

23 ¹⁶ Direct Testimony and Exhibits of Jon A. Piliaris, Exhibit No. ____ (JAP-1T), pg. 149.

24 ¹⁷ Direct Testimony and Exhibits of Jon A. Piliaris, Exhibit No. ____ (JAP-29), pg. 106.

¹⁸ See Rebuttal Testimony (Non-Confidential) of Ralph C. Cavanagh in Docket No. UE-121697 (Exhibit No. ____ (AML-17)).

1 on even greater importance, since PSE can no longer increase profits by increasing sales.

2 Witness Al-Jabir also claimed in the same portion of his response testimony that
3 decoupling would make the utility “less focused on providing quality customer service.”¹⁹

4 However, the witness was unable to provide any studies or other evidence that decoupling had
5 any negative impact on the utility’s customer service.²⁰ On the other hand, the Company’s third-
6 year evaluation notes, “there is no evident pattern of adverse impact to customer service through
7 the second year of decoupling” and “indicators of customer satisfaction usually exceed target
8 levels.”²¹ The evaluation does note some issues in 2015, though the evaluation concludes the
9 performance issues are likely due to difficult weather.²²

10 **Q. Do you support Witness Al-Jabir’s proposal to replace decoupling with “recovery of**
11 **volumetric base revenues that are lost due to the Company’s mandated energy**
12 **efficiency programs”?** (Exhibit No. ____ (AZA-1T), pg. 12)

13 A. No. These proposals would create perverse incentives, some of which were referenced
14 by the Commission in its first decoupling decision back in 1991: “[T]he Commission believes
15 that a mechanism that attempts to identify and correct only for sales reductions associated with
16 company-sponsored conservation programs may be unduly difficult to implement and monitor.
17 The company would have an incentive to artificially inflate estimates of sales reductions while
18 actually achieving little conservation.”²³

19 Meta-analysis supports the commission’s previous statements. For example, an
20

21 ¹⁹ Response Testimony of Ali Al-Jabir, Exhibit No. ____ (AZA-1T), pg. 8.

22 ²⁰ Exhibit No. ____ (AML-15), FEA Response to NWEC-RNW-NRDC Data Request No. 003.

23 ²¹ Direct Testimony and Exhibits of Jon A. Piliaris, Exhibit No. ____ (JAP-29), pg. 98.

24 ²² *Id.*, pg. 96.

²³ *Id.*, p. 4 (quoting Docket No. UE-901183-T, Third Supplemental Order (April 10, 1991), p. 10).

1 American Council for an Energy-Efficient Economy (ACEEE) review²⁴ of performance
2 incentives found that decoupling had a significant impact on energy efficiency savings:
3 decoupled utilities achieved an average of 1.4% annual energy savings, compared to non-
4 decoupled, non-lost revenue adjustment mechanism (LRAM) utilities' average of 0.5%
5 savings. Unlike decoupling, LRAM was not associated with higher or lower energy savings,
6 with LRAM utilities achieving savings of 0.6%. These trends held true when accounting for
7 energy efficiency standards (EERS) as well.

8 IV. RETURN ON EQUITY ("ROE") ISSUES

9 **Q. Do you agree with Witness Gorman's, Witness Hill's, Witness Higgins's, and**
10 **Witness Brosch's recommendation for prospective reductions in PSE's allowed**
11 **return on common equity if the Commission approves the continuation of the**
12 **Company's decoupling mechanism?**

13 A. No. None of these witnesses provides any evidence that decoupling has reduced PSE's
14 cost of equity. In addition, this Commission has declined to impose a prospective reduction in
15 previous ratemaking cases where decoupling has been approved.²⁵

16 Outside of Washington, there is still no concrete evidence that decoupling has a
17 quantifiable impact on ROE. Pamela Morgan's, "A Decade of Decoupling for US Energy
18 Utilities," provides a meta-analysis of decoupling orders.²⁶ The paper reviewed 76 Commission
19 decisions, and out of 76 relevant decisions by Commissions, 60 resulted in no ROE reduction

20 _____
21 ²⁴ Molina, M., & Kushler, M. (2015), Policies matter: Creating a foundation for an energy-efficient utility
of the future, *ACEEE, Washington, DC*. <http://aceee.org/sites/default/files/policies-matter.pdf>.

22 ²⁵ Docket UE-152235, Order 12, pg. 56.

23 ²⁶ Exhibit No. ____ (AML-18) Morgan, Pamela, "A Decade of Decoupling for US Energy Utilities: Rate
Impacts, Designs, and Observations," November 2012, [http://aceee.org/collaborative-report/decade-of-](http://aceee.org/collaborative-report/decade-of-decoupling)
24 [decoupling](http://aceee.org/collaborative-report/decade-of-decoupling). This paper has been submitted to the WUTC in previous proceedings, including as Exhibit
No. ____ (RCC-5) in Docket UE-121697.

1 and 9 resulted in a reduction of 10 basis points, with four of those resulting from settlement
2 agreements.²⁷ Reductions went as high as 50 basis points in only four cases, which were limited
3 to the jurisdictions of Maryland and Washington, D.C. Ms. Morgan concluded that “decoupling
4 adjustments will be both surcharges and refunds, the actual adjustments are likely to be small,
5 and most commissions have declined to make an ROE reduction in connection with the adoption
6 of decoupling.”²⁸

7 In addition, studies by The Brattle Group²⁹ found that a decrease in cost of capital for
8 PSE due to decoupling were not justified. The studies performed by The Brattle Group show
9 that there is no statistically significant, or reliable, empirical evidence that decoupling decreases
10 cost of capital. Without such evidence, the Commission should not adjust PSE’s ROE
11 downward.

12 IV. DECOUPLING OF FIXED POWER COSTS

13 **Q. Do you agree with Witness Liu and Witness Watkin that the Commission should**
14 **approve a separate decoupling approach for fixed power costs, if the Commission**
15 **approves the continuation of the Company’s decoupling mechanism?**

16 A. Yes. As noted in my own testimony, and that of Witnesses Liu and Watkins, fixed power
17 costs should not increase with customer count between rate case proceedings.³⁰ Thus, including
18 these costs within a revenue-per-customer approach could result in over-recovery of these power
19 costs.

21 ²⁷ *Id.*, p. 14.

22 ²⁸ *Id.*, p. 16.

23 ²⁹ Exhibit No. ____ (AML-19) Vilbert, Michael, Joseph B. Wharton, Charles Gibbons, Melanie Rosenberg,
and Yang Wei Neo, “The impact of revenue decoupling on the cost of capital for electric utilities: an
empirical investigation,” BRATTLE GROUP, Prepared for The Energy Foundation (2014).

24 ³⁰ See Direct Testimony and Exhibits of Jing Liu, Exhibit. No. ____ (JL-1CT), pg. 49-52.

1 **Q. Do you support Staff’s proposed modification for recovering fixed power costs?**
2 **(Exhibit. No. _____ (JL-1CT), pg. 49)**

3 A. Yes. Staff Witness Liu provides a proposed modification to the Company’s proposed
4 decoupling mechanism for fixed power costs.³¹ Under Staff’s proposal, the Commission would
5 set Allowed Revenue for the fixed production decoupling mechanism as determined in this
6 general rate case. This Allowed Revenue would be held at the Commission’s pre-determined
7 level until the Company “can demonstrate an increase in actual costs in the next general rate case
8 or in a power cost only rate case.”³² The Company would be allowed to true-up rates annually to
9 reflect the difference between the Allowed Revenue and actual collected revenue, but the
10 Allowed Revenue would not be tied to customer growth as the Company has proposed.

11 I believe that Staff’s proposal appropriately balances parties’ concerns around the
12 inclusion of fixed power costs in the Company’s decoupling mechanism and potential perverse
13 utility incentives if these costs are not addressed in either the PCAM (as agreed to in the 2015
14 PCA settlement) or another mechanism. The modification ensures that the decoupling
15 mechanism does not inappropriately provide the Company with additional revenues to cover
16 fixed production costs that do not actually exist, while still addressing the Company’s
17 “throughput” incentive, and preventing a new perverse incentive for the Company to prefer
18 purchased power (recoverable under the PCA) over Company-owned resources, even when more
19 expensive.³³

20 V. MISCELLANEOUS ISSUES

21 **Q. Have you reviewed Staff’s Third-Tier Block calculation? (Exhibit No. _____**

22 _____
³¹ *Id.*, pg. 48-56.

23 ³² *Id.*, pg. 54.

24 ³³ Direct Testimony and Exhibits of Amanda M. Levin, Exhibit No.____ (AML-1T), pg. 21.

1 (JLB-6)

2 A. Yes. Staff Witness Ball provides additional detail on the third-tier block rate calculation
3 in Exhibit JLB-6. Staff's revised tiers result in a proper inclining rate, with a third-tier rate of
4 \$0.127 or \$0.130 per kWh for usage above 1800 kWh's, depending on treatment of transformer
5 costs.³⁴

6 In my direct testimony, I had proposed a possible three-tier block design that would
7 account for load profiles and factors of high-usage customers, if feasible. PSE does not currently
8 track the data and information necessary to do this. Staff notes the same issue, and relies on an
9 alternative approach to approximate demand variances and demand-related costs for block
10 groups.³⁵ Staff allocates 100% of the Company's embedded hydro assets and expenses (on a
11 demand and energy basis) to the first block, consistent with previous commission orders
12 endorsing the principle that the low-cost energy should be reserved for the first block.³⁶ Staff
13 then allocates the demand costs of thermal resources between the first and second blocks based
14 on the relative annual energy consumption for each block, and allocates the demand costs of
15 other and peaking resources between the second and third tier. On an energy basis, the costs of
16 all non-hydro power (which was allocated 100% to the first block) are allocated based on ratio of
17 total kWh for each block in the test year.

18 While I have not completed a full robust review of Staff's calculations, Staff's three-tier
19 rate methodology may be a potential approach that would not require PSE to track and use
20 information it does not currently have. The Commission and other parties may want to explore
21

22 _____
23 ³⁴ Direct Testimony and Exhibit of Jason L. Ball, Exhibit No. ____ (JBL-1T), pg. 44.

24 ³⁵ Direct Testimony and Exhibit of Jason L. Ball, Exhibit No. ____ (JBL-6), pg. 3.

³⁶ Docket UE-921262, Ninth Supplemental Order, P. 15.

1 and discuss Staff's approach as a potential three-tier design option if there is adequate interest in
2 transitioning to a three-tier rate design for residential electric customers. Staff's approach results
3 in a true inclining block rate, unlike PSE's proposal, and would not require the Company to
4 measure and track new, more granular data on demand by block level.

5 **Q. Have you reviewed Public Counsel's suggestion to explore potential revisions to tier**
6 **levels (e.g., first block covering consumption up to 800 kWh)? (Exhibit No. _____**
7 **(GAW-1T), pg. 62)**

8 A. Yes. If the Commission and other parties are interested, I would be supportive of parties
9 opening a separate docket to explore possible adjustments and alternative rate designs for
10 residential customers. This could include studying the possibility of raising the current first-tier
11 block from 600 kWh to 800 kWh; the benefits, rate structure, and any necessary investments to
12 implement a time-of-use (TOU) offering; seasonal rate options; and/or a three-tier block rate
13 methodology. In particular, I would recommend that a proceeding exploring revisions to the
14 first-tier block level specifically study the likely impacts on low-income households.

15 **Q. Does this conclude your testimony?**

16 A. Yes.