

EXHIBIT NO. ___(JAP-1T)
DOCKET NO. UE-13___/UG-13___
PSE EXPEDITED RATE FILING
WITNESS: JON A. PILIARIS

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of

PUGET SOUND ENERGY, INC.'S

Expedited Rate Filing

Docket No. UE-13___

Docket No. UG-13___

PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF
JON A. PILIARIS
ON BEHALF OF PUGET SOUND ENERGY, INC.

FEBRUARY 1, 2013

PUGET SOUND ENERGY, INC.

**PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF
JON A. PILIARIS**

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PUGET SOUND ENERGY, INC.

**PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF
JON A. PILIARIS**

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Jon A. Piliaris. I am employed as Manager of Pricing and Cost of Service with Puget Sound Energy, Inc. (“PSE” or the “Company”). My business address is 10885 NE Fourth Street, Bellevue, WA 98009-9734.

Q. Have you prepared an exhibit describing your education, relevant employment experience and other professional qualifications?

A. Yes, I have. It is Exhibit No. ____ (JAP-2).

Q. What is the purpose of your testimony?

A. My testimony presents the Company’s proposed rate spread and rate design for the recovery of a substantial portion of the \$32,163,102 electric revenue deficiency presented in the Prefiled Direct Testimony of Katherine J. Barnard, Exhibit No. ____ (KJB-1T), through the new tariff rate, Schedule 141.

1 **Q. Please summarize your testimony.**

2 A. As with past rate cases, the Company advocates for a rate spread and rate design
3 proposal that aligns cost causation with cost recovery. Although PSE
4 traditionally uses a cost of service study to determine the appropriate rate spread,
5 the Company has adopted a simplified approach in this filing that is in keeping
6 with the spirit of Commission Staff’s proposal for an expedited rate filing
7 (“ERF”) in Docket Nos. UE-111048 and UG-111049. This simplified approach
8 also extends to PSE’s design of new rates.¹ The tariff increases requested in
9 Schedule 141 will result in a 1.6% average rate increase for electric customers.

10 **II. RATE SPREAD**

11 **Q. Please summarize the Company’s proposal to spread the electric revenue**
12 **deficiency?**

13 A. The Company used results from the electric cost of service model submitted with
14 its compliance filing to Docket No. UE-111048 as the basis for spreading the
15 ERF revenue deficiency. To do this, allocated costs related to PSE’s Power Cost
16 Adjustment (“PCA”) mechanism and property taxes² were first subtracted from
17 each class’s pro forma base rate revenues at approved rates to derive ERF-related

¹ See Elgin, Exh. No. KLE-1T at 81:4-22; *WUTC v. Puget Sound Energy, Inc.*, Docket Nos. UE-111048 and UG-111049, Order 08 ¶¶ 506-07 (May 7, 2012).

² As discussed in the Prefiled Direct Testimony of Katherine J. Barnard, Exhibit No. ___(KJB-1T), PSE is also proposing in this docket to recover property taxes through a separate tariff rider.

1 expenses from the Docket No. UE-111048. Each class's share of this amount was
2 then used to derive an allocation factor. With two exceptions, this allocation
3 factor was then applied to the electric revenue deficiency to determine the amount
4 to be recovered from each rate class. In effect, this approach allocates the ERF-
5 related increases proposed in this filing on an equal percent of "margin" basis.

6 **Q. Please explain the two exceptions to the approach described above?**

7 A. The Lighting and Retail Wheeling customer classes would have experienced rate
8 increases in excess of 3.0 percent as a result of the approach described above (and
9 in more detail below). However, WAC 480-07-505 limits the increase to any
10 customer class to under 3.0 percent of total revenues in a non-general rate case
11 such as this proceeding. Therefore, in this proposal, PSE has limited the increase
12 to these two customer classes to 2.9 percent to ensure that they are not assigned
13 an increase of 3.0 percent or greater. As a result, the revenue to be collected by
14 the proposed rates is approximately \$262,000 less than the electric revenue
15 deficiency presented in the prefiled direct testimony of Ms. Barnard. To be clear,
16 the \$262,000 is not being spread to other customer classes, PSE is simply
17 requesting a smaller increase than is supported by its calculated electric revenue
18 deficiency.

1 **Q. How were PCA-related costs allocated to each rate class?**

2 A. The Company first removed property taxes from PCA-related costs. The peak
3 credit methodology in Docket No. UE-111048³ was then used to allocate the
4 remaining PCA-related revenue requirement to each rate class. Specifically, PSE
5 derived a PCA-related allocation factor by adding (1) the product of the DEM-
6 2B⁴ class allocation factor and the peak credit demand percentage of 19 percent
7 (2) to the product of the ENERGY²⁵ class allocation factor and the peak credit
8 energy percentage of 81 percent. PSE used this factor to allocate the PCA-related
9 revenue requirement, net of production-related property taxes, to each rate class.

10 **Q. Why have you removed property tax revenue from approved base rate**
11 **revenue?**

12 A. As discussed in the prefiled direct testimony of Ms. Barnard, PSE proposes a
13 tracker mechanism for recovery of property taxes. If property taxes are recovered
14 through the tracker, they need to be removed from base rates. As stated in the
15 prefiled direct testimony of Ms. Barnard, implementation of the property tax

³ See Piliaris, Exh. No. JAP-1T 10:6 - 11:7 (Docket Nos. UE-111048 and UG-111049).
See also Piliaris, Exh. No. JAP-3 (Docket Nos. UE-111048 and UG-111049).

⁴ This allocation factor is derived from each class's contribution to the 75 hours of highest demand on PSE's system during the test period. Interruptible and Retail Wheeling customers are excluded from this factor.

⁵ This allocation factor is derived from each class's contribution to PSE's retail energy sales, excluding Retail Wheeling customers.

1 tracker to recover property taxes in conjunction with removal of the same amount
2 from general rates results in a revenue neutral rate change.

3 **Q. How were property taxes allocated to each rate class?**

4 A. The Company used the PTDGP.T⁶ allocation factor from the compliance cost of
5 service results in Docket No. UE-111048 to allocate the property tax revenue
6 requirement to each rate class.

7 **Q. What is the resulting ERF-related cost used to allocate the electric revenue**
8 **deficiency to state-jurisdictional customers in this filing?**

9 A. This amount is approximately \$645.3 million, which is slightly different than the
10 \$643.5 million identified in Exhibit No. ___(KJB-3). This difference was ignored
11 for purposes of the allocation factor since it only amounts to 0.27 percent of the
12 overall amount used to derive the ERF-related allocation factor. This is well
13 within the 5 percent dead band PSE has historically used as the basis for
14 proposing average rate changes to applicable rate classes.

15 **Q. Please summarize the results of the ERF allocation factor calculation.**

16 A. This summary is provided in the table below. Additional detail supporting these
17 figures are provided in Exhibit No. ___(JAP-3).

⁶ This allocation factor is derived from each class's relative share of production, transmission, distribution and general plant in the test period.

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Table 1 – ERF Allocation Factor Results

Customer Class	Rate Schedule	Allocation Factor
Residential	7	57.5%
General Service, < 51 kW	24	13.1%
General Service, 51 – 350 kW	25	12.3%
General Service, >350 kW	26	6.7%
Primary Service	31/35/43	5.3%
Campus Rate	40	1.3%
High Voltage	46/49	0.7%
Lighting Service	51 - 59	1.9%
Choice/Retail Wheeling	448/449	1.1%
Firm Resale/Special Contract	5	0.2%
System Total / Average		100.0%

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III. EXPEDITED RATE FILING TEST PERIOD REVENUE

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Q. Please describe how the Company determined the electric ERF revenue associated with weather-normalized sales made during the Commission Basis Report (“CBR”) test period ended June 30, 2012.

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A. The Company first divided each class’s ERF-related revenue in the test period for Docket UE-111048, as discussed above, by their associated weather-normalized energy sales. These unit rates were then applied to each class’s weather-normalized energy sales for CBR period ended June 30, 2012. Using this approach, the resulting ERF-related revenue for this period was determined to be \$644,234,414. These calculations are shown in Exhibit No. ___(JAP-3) at line

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1 51. This level of revenue was used to determine the revenue deficiency in the
2 prefiled direct testimony of Ms. Barnard.

3 **IV. RATE DESIGN**

4 **Q. Please describe the rate design methodology used to recover the ERF revenue**
5 **deficiency.**

6 A. The revenue associated with Schedule 140, the Property Tax Tracker, was first
7 removed from all base rates for purposes of this design.⁷ The next step was to
8 remove cost-based PCA revenues from these base rates at the tariff level to derive
9 pro forma “margin” revenue. This remaining margin revenue was used to
10 apportion each class’s allocated revenue deficiency to the basic, energy, demand,
11 reactive or lamp charges, as applicable, on an equal percentage of revenue basis,
12 within the appropriate rate schedule. These deficiencies are recovered through
13 the new adjusting rate schedule, Schedule 141.

14 **Q. What components of the rates were changed when property taxes were**
15 **removed?**

16 A. As indicated in the prefiled direct testimony of Ms. Barnard, only the energy
17 charges were adjusted for the removal of property taxes. For a given rate
18 schedule, the allocated property taxes were divided by the energy sales for that
19 schedule to yield a property tax rate. This amount was subtracted from the

⁷ See footnote 2, *infra*.

1 approved energy charge. For schedules with block rates, the same per kWh rate
2 was subtracted from all blocks. The property tax tracker rates are also proposed
3 to be on a per kWh basis. These rates are shown in Column D of Exhibit
4 No. ___(JAP-5).

5 **Q. After property taxes have been removed, how did the Company design ERF**
6 **rates?**

7 A. First, PSE identified PCA and ERF-related revenue for each of the tariff charges.
8 Basic charge revenue was assumed to be entirely related to ERF costs. The
9 remaining charges (energy, demand and reactive power) were assumed to recover
10 both ERF and PCA-related costs. For each class, the PCA-related demand and
11 reactive power revenue was assumed to be limited to the lesser of these revenues
12 or the allocated demand-related PCA costs. The remaining PCA revenue was
13 assumed to be energy-related and was spread across each class's energy rate
14 blocks in proportion to the rate block's share of total energy revenue. The sum of
15 these energy and demand components equal the PCA-related cost allocation from
16 PSE's cost of service study in Docket No. UE-111048.

17 ERF-related revenue at current rates, reduced for the effects of the proposed
18 Property Tax Rider (Schedule 140), was then calculated by subtracting the PCA-
19 related revenue requirement from the pro forma revenue. The ERF increase was
20 spread across the basic, energy, demand and reactive power charge components in
21 proportion to the ERF-related revenues. Where the existing demand charge

1 revenue was less than the allocated PCA-related demand costs, no change to the
 2 demand or reactive power charge was made. The calculations of the ERF-related
 3 rates, inclusive of the proposed increases in this filing, are provided in Exhibit
 4 No. ___(JAP-4). Column F of Exhibit No. ___(JAP-5) shows the derivation of
 5 proposed Schedule 141 rates that recover only the calculated ERF electric
 6 revenue deficiency.

7 **Q. Can you summarize the impacts of the Company’s electric ERF proposal for**
 8 **each class?**

9 A. Yes. The allocated electric ERF-related deficiency and associated average rate
 10 impacts are presented below.

11 **Table 2 – Summary of Average ERF-Related Revenue and Rate Impacts**

Customer Class	Rate Schedule	Allocated ERF Deficiency (\$M)	Average Rate Impact
Residential	7	\$18.6	1.7%
General Service, < 51 kW	24	4.3	1.7%
General Service, 51 – 350 kW	25	4.0	1.5%
General Service, >350 kW	26	2.1	1.3%
Primary Service	31/35/43	1.7	1.4%
Campus Rate	40	0.4	0.8%
High Voltage	46/49	0.2	0.6%
Lighting Service	51 - 59	0.5	2.9%
Choice/Retail Wheeling	448/449	0.2	2.9%
Firm Resale/Special Contract	5	0.0	0.0%
System Total / Average		\$31.9	1.6%

1 **Q. Has PSE prepared new electric tariff schedules based upon the rate spread**
2 **and rate design approach you describe above?**

3 A. Yes, the proposed electric tariff Schedule 141 is presented in Exhibit
4 No. ___(JAP-6).

5 **V. CONCLUSION**

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

7 A. Yes.