Exhibit No. BCC-6T
Dockets UE-170033 and UG-170034 (Cons.)
Witness: Brian C. Collins

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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

SUPPLEMENTAL CROSS-ANSWERING TESTIMONY OF BRIAN C. COLLINS

ON BEHALF OF

THE NORTHWEST INDUSTRIAL GAS USERS

August 15, 2017

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. Brian C. Collins. My business address is 16690 Swingley Ridge Road, Suite 140, Chesterfield, MO 63017.

Q. ARE YOU THE SAME BRIAN C. COLLINS WHO PREVIOUSLY FILED TESTIMONY IN THIS PROCEEDING?

A. Yes. On June 30, 2017, I filed Response Testimony and on August 9, 2017, I filed Cross-Answering Testimony, both on behalf of the Northwest Industrial Gas Users (“NWIGU”).

Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL CROSS-ANSWERING TESTIMONY?

A. I am responding to the supplemental testimony of Washington Utilities and Transportation Commission (“Commission”) Staff witness Jason Ball (“Staff”) with respect to his proposal regarding Puget Sound Energy’s (“PSE” or “Company”) Special Contract class. My colleague Mr. Edward Finklea also provides policy testimony in response to Staff’s proposal.

Q. PLEASE DESCRIBE STAFF’S PROPOSAL FOR THE SPECIAL CONTRACT CLASS.

A. Staff believes that the rates paid by the Special Contract class are not consistent with WAC 480-80-143, because the class is not recovering its full cost of service. Staff arrives at this conclusion based on a cost of service study that is inconsistent with the cost of service studies of both PSE and NWIGU. Staff recommends imputing revenues for the Special Contract class to achieve full recovery of costs, including PSE’s authorized rate of return. Under Staff’s proposal, the claimed shortfall in revenue would be absorbed by PSE shareholders. Staff opines that this will incentivize the Company to re-negotiate Special Contracts in order to recover additional revenues from Special Contract customers. In the alternative, if the Commission rejects the proposal to impute revenues, Staff recommends a 58.83% increase in the Special Contract class current revenues.

Q. DO YOU AGREE WITH STAFF'S RECOMMENDATION?

A. No, I do not. Staff's proposal is based on an inappropriate comparison of Special Contract rates to full cost of service. A comparison of Special Contracts to traditional cost of service is not proper because Special Contracts are typically priced below the cost of service in order to retain a customer that has a competitive alternative to PSE delivery service. The appropriate analysis is to determine if the Special Contract class pays a price that is fair and balanced to all PSE customers, which includes a determination of whether the contract price recovers the variable cost of service to the class and whether it contributes to PSE's fixed costs. The fixed costs paid by contract customers would otherwise be paid by non-contract customers. This assessment is part of determining whether the contract rate produces benefits to all of PSE's customers.

Q. STAFF OPINES THAT THE SPECIAL CONTRACT CLASS DOES NOT COVER ITS FULL LEVEL OF ALLOCATED EXPENSES AND CONTRIBUTES LESS THAN NOTHING TOWARD RETURN ON RATE BASE. DO YOU AGREE WITH THIS OPINION?

A. No, I do not. Regardless of the cost of service methodology used, it is clear that the Special Contract class is recovering all of the variable costs to serve the class and is providing a significant contribution to the Company's fixed costs. The table below shows the current revenues provided by the Special Contract class, the proposed allocation of operation and maintenance expenses, and the contribution to fixed costs under my proposed cost of service methodology, as well under the Company and Staff methodologies. Under all three cost of service models, the Special Contract class current revenues recover the Special Contract class's allocated operation and maintenance expenses—also known as the variable costs. Revenues in excess of these variable costs are the contribution to fixed costs.

TABLE 1

Special Contract Class

Description	NWIGU	PSE[1]	Staff[2]
Cost of Service Method	Coincident Design Day Demand	Peak & Average (Peak = Design Day Demand)	Modified Peak & Average
Current Margin Revenues	$1,369,462	$1,370,309	$1,370,090
Cost of Service (Margin Rev. Req.)	$1,365,507	$2,454,888	$2,858,003
Difference ($)	$3,955	($1,084,579)	($1,487,193)
Difference (%)	-0.29%	79.15%	108.60%
Index (Relative to System Average Increase)	(0.05)	15.1	42.2
Current Margin Revenues	$1,369,462	$1,370,309	$1,370,090
Allocated O&M	$393,478	$670,229	$804,228
Contribution to Fixed Costs	$975,984	$700,080	$565,862

Sources:
[1]PSE Response to Kroger DR No. 05.
[2]Supplemental Testimony of Jason L. Ball, Staff COS Workpaper, August 7, 2017.

As shown above, when using a proper cost of service study that better reflects cost causation as recommended in my Response Testimony, the current Special Contract class margin revenues are more than sufficient in recovering the class's allocated cost of service, and are actually deserving of a small decrease of 0.29%.[1] By allocating capacity costs to classes based on the Coincident Demand method using

[1] Exhibit No. BCC-3, p. 1.

Design Day Demand, the Special Contract class's current revenues are in alignment with the Company's cost of service.

Even under Staff and PSE's cost of service studies, the table above demonstrates compliance with the standard in WAC 480-180-143(5)(C), which provides that the Special Contracts must "[d]emonstrate, at a minimum, that the contract charges recover all costs resulting from providing the service during its term, and, in addition, provide a contribution to the gas, electric, or water company's fixed costs."

Staff ignores this standard for Special Contracts and proposes to have PSE shareholders absorb the difference between the Special Contract class revenue and cost of service, or in the alternative, subjects the Special Contract class to an unjustified 58.83% increase in current margin revenues (which is more than 20 times Staff's proposed system margin revenue increase of 2.57%). Staff's proposal ignores concepts of rate shock and gradualism and should be rejected.

Q. WHAT COST OF SERVICE METHODOLOGY HAS STAFF USED TO MEASURE THE SPECIAL CONTRACT CLASS COST OF SERVICE?

A. Like the Company, Staff uses the Peak and Average ("P&A") methodology. However, instead of using classes' coincident design day demand for the peak component of the P&A allocator as proposed by the Company, Staff proposes to allocate capacity cost using the average class use in the highest five-day period for each of the last three years for the peak component of the P&A methodology.

Q. DO YOU AGREE WITH STAFF'S METHODOLOGY FOR MEASURING THE SPECIAL CONTRACT CLASS COST OF SERVICE?

A. No, I do not. For the same reasons provided in my Cross-Answering Testimony, I do not agree with his methodology for measuring cost of service. Staff's methodology does not best reflect cost causation on the Company's system and should not be used to allocate costs to classes. Staff has taken the Company's P&A study, which does not best reflect cost causation, and made it even worse with respect to allocating costs to classes based on cost causation. As a result, Staff's modification to the Company's Peak & Average study makes it even less reflective of cost causation and should be rejected.

Q. UNDER YOUR PROPOSED COST OF SERVICE STUDY, ARE SPECIAL CONTRACT CUSTOMER RATES ALIGNED WITH PSE'S COST OF SERVICE?

A. Yes, Special Contract rates are aligned with PSE cost of service using appropriate cost-causation factors for allocating the costs of mains in my study. As shown in my Response Testimony, the current Special Contract class margin revenues are more than sufficient in recovering the class's allocated cost of service, and are actually deserving of a small decrease of 0.29%, as shown on page 1 of Exhibit No. BCC-3 filed with my Response Testimony. Special Contract customers may leave the system if the cost of delivery capacity at PSE is not competitive with the cost of dedicated delivery capacity associated with bypassing the system. By keeping Special Contract customers on the system, they provide a contribution to fixed costs that is to the benefit of all other customers.

Q. DOES YOUR COST OF SERVICE STUDY SHOW THAT THE SPECIAL CONTRACT CUSTOMERS' PRICING IS FAIR AND REASONABLE TO ALL PSE CUSTOMERS?

A. Yes. My cost of service study shows that the Special Contract prices are just and reasonable and benefit all PSE customers. But this is also true under the cost of service studies presented by PSE and Staff.

The cost to bypass PSE's gas delivery system is based on a large customer's cost to directly connect to an interstate pipeline. The bypass cost would be based on the cost to install a main sized to carry the customer's design day demand with adequate length to connect to the interstate pipeline. My corrections to PSE's cost of service study allocate main capacity costs to customers based on PSE's capacity cost needed to serve the Special Contract customers' design day demands. My corrections to PSE's cost study show that, without subsidies, PSE delivery system costs are competitive with large customers' costs to bypass its delivery system. Therefore, the Special Contract pricing supports PSE's ability to compete with bypass alternatives, retain Special Contract customers on its delivery system, and benefit non-Special Contract customers by recovering a significant amount of fixed costs from Special Contract customers. The Special Contract prices are fair and reasonable and benefit all customers of PSE.

Q. WHAT IS YOUR RECOMMENDATION?

A. For the reasons explained above, I recommend that Staff's proposal to have PSE absorb the imputed revenue to bring the Special Contract class to full cost of service, or, in the alternative, to increase Special Contract revenues by 58.83% be rejected. In the event the Commission determines that the rates for the Special Contract class should be increased, the increase should be based on the methodology included in the Special Contracts that provides for increases in the Customer Charge, Firm Demand Charge, and Commodity Charge under certain circumstances.

Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL CROSS-ANSWERING TESTIMONY?

A. Yes, it does.