

**EXHIBIT NO. ____ (JAP-1T)
DOCKET NO. UE-12____/UG-12____
JOINT DECOUPLING ACCOUNTING
PETITION
WITNESS: JON A. PILIARIS**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of

**PUGET SOUND ENERGY, INC.
and NW ENERGY COALITION**

**For an Order Authorizing PSE To
Implement Electric and Natural Gas
Decoupling Mechanisms and To
Record Accounting Entries Associated
With the Mechanisms**

**Docket No. UE-12____
Docket No. UG-12____**

PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF

JON A. PILIARIS

ON BEHALF OF PUGET SOUND ENERGY, INC.

OCTOBER 25, 2012

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

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

3 **I. INTRODUCTION**

4 **Q. Please state your name and business address.**

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

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

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

11 **Q. What is the purpose of your testimony?**

12 A. My testimony supports a joint proposal by the NW Energy Coalition ("the
13 Coalition") and PSE (collectively, the "Joint Parties") for electric and natural gas
14 revenue decoupling for PSE. Specifically, my testimony presents the details of
15 the proposed decoupling mechanisms and explains how the proposal addresses a
16 number of the issues raised by the Washington Utilities and Transportation
17 Commission ("Commission") in its *Report and Policy Statement on Regulatory*
18 *Mechanisms, Including Decoupling, To Encourage Utilities To Meet Or Exceed*
19 *Their Conservation Targets*¹ ("Decoupling Policy Statement").

¹ Docket No. U-100522 (November 4, 2010).

1 **Q. Why are the Joint Parties proposing these decoupling mechanisms?**

2 A. The Joint Parties are proposing electric and natural gas decoupling mechanisms
3 intended to further encourage PSE's aggressive pursuit of energy conservation by
4 breaking the link between the recovery of the Company's authorized delivery-
5 related revenue and the amount of energy it sells.

6 Conservation causes two adverse financial penalties to a utility that a decoupling
7 mechanism can address. First, there is a growing financial hardship as a result of
8 "declines in revenues due to utility-sponsored conservation."² This is a hardship
9 that the legislature requires the Commission to consider.³ Second, under PSE's
10 current rate structure, the Company must rely on volumetric rates to recover a
11 substantial portion of its fixed delivery costs. When PSE aggressively and
12 successfully promotes conservation, customers use less energy and PSE is
13 hampered in its ability to fully recover these embedded fixed costs through
14 volumetric rates. Moreover, the growth in load is reduced to cover new fixed
15 costs. This creates a throughput incentive, which is antithetical to the unimpeded
16 pursuit of conservation.

17 The electric and natural gas decoupling mechanisms proposed here address these
18 dual concerns. The proposed mechanisms are based on the decoupling
19 mechanism proposed by the Coalition in PSE's 2011 General Rate Case ("2011
20 GRC"), Docket Nos. UE-111048 and UG-111049 (Consolidated), which the

² See Decoupling Policy Statement ¶ 1.

³ RCW 80.28.260(3).

1 Commission noted was substantially consistent with its Decoupling Policy
2 Statement. However, the Coalition's decoupling proposal has been adjusted so
3 that revenues are calculated in a manner that allows the Company to recover its
4 Commission-approved fixed delivery costs consistent with historic regulatory
5 practice without conservation.

6 **Q. Please explain.**

7 A. The purpose of decoupling is to eliminate the link between energy being used and
8 revenues. To eliminate this link, a surrogate has to be found for energy sales in
9 the calculation of utility revenue. For many decoupling mechanisms, that
10 surrogate has been the number of customers served. Customers can be a
11 reasonable surrogate. However, to be a reasonable surrogate in a state that uses
12 historic test year ratemaking, the growth rate of customers beyond the test year
13 should match the growth rate of energy sales that the utility would have
14 experienced without conservation. If the growth rate of this surrogate is different
15 from the growth in energy sales that the utility would have experienced without
16 conservation, the utility would not be indifferent to the impact of conservation
17 and it would thereby frustrate one of the principal purposes for decoupling (i.e.,
18 removing the utility's incentive to promote conservation).

19 To bridge the gap between the growth in customers versus the growth in energy
20 sales in the absence of conservation, the mechanisms proposed today include a
21 "K-Factor." As part of the decoupling calculations proposed here, the K-Factor is
22 used to adjust customer growth to better match pre-conservation load growth and

1 is intended to allow PSE to recover delivery-related revenue closer to what would
2 have been recovered in the absence of its conservation programs.⁴ The absence of
3 this type of adjustment was the key obstacle to the Company's endorsement of the
4 Coalition's decoupling proposal in the 2011 GRC.

5 **Q. Does the K-Factor in any way allow PSE to recover more costs than**
6 **approved by the Commission in PSE's last general rate case?**

7 A. No. No aspect of the Joint Party's proposal in this filing, including the K-Factor,
8 allows the Company to recover more costs than already approved by the
9 Commission in PSE's last general rate case. The proposal made in this filing
10 simply seeks to reframe how costs, already approved by the Commission, are
11 recovered so that the Company is no longer penalized financially for its
12 acquisition of conservation resources.

13 **Q. Are there any other noteworthy improvements over the Coalition's**
14 **decoupling proposal in PSE's 2011 GRC and what is proposed here?**

15 A. Yes. One noteworthy improvement in the decoupling proposal made here over
16 the one made by the Coalition in the 2011 GRC is the Company's commitment to
17 achieve electric conservation that exceeds, by five percent, the Commission-
18 approved biennial conservation target (i.e., 21 percent of the ten year conservation

⁴ As discussed later in this testimony, to address various stakeholder concerns regarding the use of forecasts for ratemaking purposes, the K-Factor proposed in this filing is calculated using historic data. This proposal to use historic, rather than projected, information means that over one year of conservation achievement will still not be reflected in the decoupling rate year and will continue to impede the Company's ability to recover its delivery costs in each decoupling rate year, even with the K-Factor.

1 potential rather than 20 percent).⁵ PSE commits to continue achieving electric
2 conservation at this accelerated pace as long as the electric decoupling deferrals
3 proposed in this filing remains in effect and unchanged. Another improvement in
4 this proposal is PSE's commitment to propose to increase funding of its low-
5 income electric conservation programs by as much as twenty (20) percent over
6 levels currently budgeted for 2013.

7 II. BACKGROUND AND OVERVIEW OF PROPOSAL

8 **Q. What is the purpose of the proposal for the electric and natural gas revenue**
9 **decoupling mechanisms?**

10 A. The decoupling mechanisms are intended to further encourage PSE's aggressive
11 pursuit of energy conservation by weakening the link between the recovery of the
12 Company's costs and the amount of energy it sells. Also of significance from
13 PSE's perspective, the decoupling mechanisms address the growing financial
14 hardship experienced by the Company as a result of its obligations to pursue all
15 cost effective conservation, especially since the passage of the Energy
16 Independence Act⁶ that requires electric conservation targets to be set and
17 achieved.

18 **Q. Has the Company previously attempted to address the financial challenges**
19 **presented by its acquisition of conservation resources?**

⁵ As outlined in RCW 19.285.

⁶ As discussed in the Prefiled Direct Testimony of Mr. Ralph Cavanagh, Exhibit No. _____ (RCC-1T), the Coalition has a separate set of motivations for supporting the decoupling proposal, namely mitigating PSE's "throughput incentive."

1 A. Yes. To address these growing challenges, the Company proposed the
2 Conservation Savings Adjustment (“CSA”) mechanisms in its 2011 GRC, which
3 was rejected by the Commission.

4 **Q. How are the mechanisms proposed here different from the one proposed by**
5 **the Company in its last general rate case?**

6 A. The mechanisms proposed by the Company in its prior general rate case were
7 more aligned with the concept of a “lost margin recovery mechanism.” In this
8 filing, with one modification, the mechanisms proposed by the Joint Parties are
9 more closely aligned with the notion of a “full decoupling” mechanism, as
10 discussed in the Commission’s Decoupling Policy Statement.

11 **Q. How are the decoupling mechanisms proposed in this filing different from**
12 **the concept of a full decoupling mechanism, as described in the**
13 **Commission’s Decoupling Policy Statement?**

14 A. The primary difference between the decoupling mechanisms proposed here and
15 the Decoupling Policy Statement’s interpretation of a full decoupling mechanism
16 is the introduction of a “K-Factor.”

17 **Q. Can you describe generally the purpose of the K-Factor?**

18 A. Yes. As indicated earlier, PSE’s primary purpose in this filing is to address the
19 effect that Company-sponsored conservation has on its ability to recover delivery-
20 related revenues. In other words, PSE is attempting to restore these revenues to a
21 level that would have existed in the absence of Company-sponsored conservation.

1 As indicated in its Decoupling Policy Statement, the Commission's preferred
2 approach to addressing this issue is to tie these revenues to the number of
3 customers it serves. However, it is not necessarily the case that the growth in
4 customers following a rate case test year will match the growth in revenues the
5 utility would have experienced through its volumetric rates in the absence of
6 Company-sponsored conservation. The need for the K-Factor arises to the extent
7 that such differences exist. The calculation of the K-Factor is discussed in more
8 detail later in my testimony.

9 **Q. Was such a factor included as part of the Coalition's proposed full**
10 **decoupling mechanism in PSE's last general rate case?**

11 A. No, and the lack of this component of the mechanism is the primary reason that
12 PSE did not support the Coalition's decoupling proposal in that case.

13 **Q. Aside from the K-Factor, are the decoupling mechanisms proposed in this**
14 **filing substantially similar to the one proposed by the Coalition in PSE's**
15 **2011 GRC?**

16 A. Yes.

17 **Q. What was the Commission's reaction to the Coalition's proposal in that case?**

18 A. In the final rate case order, the Commission observed that, with a few exceptions,
19 the mechanism proposed by the Coalition was "essentially congruent with the

1 policy we endorsed in the Decoupling Policy Statement.”⁷

2 **III. OPERATION OF PROPOSED DECOUPLING**
3 **MECHANISMS**

4 **A. Overview of Mechanism**

5 **Q. Please provide a general description of how the decoupling mechanisms**
6 **proposed by the Joint Parties operate?**

7 A. The proposed decoupling mechanisms are essentially deferred accounting
8 mechanisms whereby the Company defers the difference between its Allowed
9 Delivery Revenue and the Actual Delivery Revenue received through its tariff
10 rates to cover delivery costs. The resulting accumulated deferred balances are
11 trued-up annually through a surcharge or credit to customers’ bills, subject to
12 certain limitations discussed below. An example of the electric decoupling rate
13 schedule is presented in the Second Exhibit to my prefiled direct testimony,
14 Exhibit No. ___(JAP-3). An example of the natural gas decoupling rate schedule
15 is presented in the Third Exhibit to my prefiled direct testimony, Exhibit
16 No. ___(JAP-4).

17 **B. Allowed Delivery Revenue**

18 **Q. What is Allowed Delivery Revenue?**

19 A. Allowed Delivery Revenue is the level of revenue approved by the Commission
20 to cover the costs associated with the Company’s electric and natural gas delivery

⁷ PSE’s 2011 GRC, Order 08, fn. 605.

1 system that are not otherwise recovered through its fixed charges (e.g., basic
2 charges).

3 **Q. How is Allowed Delivery Revenue calculated?**

4 A. Allowed Delivery Revenue is calculated by multiplying Monthly Allowed
5 Delivery Revenue Per Customer by the number of customers served in the month.
6 These calculations are performed separately for two groups of customers,
7 (Residential and Non-Residential)⁸ and separately for electric and natural gas
8 service.

9 **Q. How is Monthly Allowed Delivery Revenue Per Customer calculated?**

10 A. Monthly Allowed Delivery Revenue Per Customer is calculated by allocating
11 Annual Allowed Delivery Revenue Per Customer to each month of the
12 decoupling rate year (beginning May 1). This allocation is performed based on
13 the relative weather-normalized monthly energy sales from the correspondent
14 month in the calendar year prior to the effective date of new decoupling rates.
15 These calculations are presented for each electric rate group on page 1 of the
16 Fourth Exhibit to my prefiled direct testimony, Exhibit No. ___(JAP-5) and for
17 each natural gas rate group on page 1 of the Fifth Exhibit to my prefiled direct
18 testimony, Exhibit No. ___(JAP-6).

⁸ The specific rate schedules included in each rate group is discussed later in this testimony.

1 **Q. What is the purpose of calculating Monthly Allowed Delivery Revenue Per**
2 **Customer as opposed to simply using the Annual Allowed Delivery Revenue**
3 **Per Customer?**

4 A. The purpose of calculating Monthly Allowed Delivery Revenue Per Customer is
5 to better match the shape of Allowed Delivery Revenue to Actual Delivery
6 Revenue, thereby reducing large inter-month decoupling deferrals due to the
7 seasonality of customer usage. This also makes possible the operation of the
8 mechanism for less than a twelve-month period, which will be useful to transition
9 the operation of the mechanisms from what could initially be a period of a few
10 months to the proposed annual cycles beginning May 1 of each year.

11 **Q. How is Annual Allowed Delivery Revenue Per Customer calculated?**

12 A. The Annual Allowed Delivery Revenue Per Customer is calculated, separately for
13 each electric rate group, as follows.

14 First, we calculate Test Year Delivery Revenue by subtracting the sum of (a)
15 allocated costs related to PSE's Power Cost Adjustment ("PCA") mechanism⁹ and
16 (b) pro forma basic charge revenue, from total pro forma test year revenue used to
17 set current base rates.¹⁰ Second, this Test Year Delivery Revenue is divided by
18 the number of customers during the test year to derive the Test Year Delivery

⁹ PCA-related costs will be allocated to the rate groups in a manner consistent with the methodology used to set current rates.

¹⁰ In response to direction offered in Order 08 to PSE's 2011 GRC, the Company contemplates filing to recover property tax through a separate tracker in the near future. If/when that tracker becomes effective, these costs would also be excluded from the decoupling mechanism calculations.

1 Revenue Per Customer. Third, the Test Year Delivery Revenue Per Customer is
 2 then multiplied by a K-Factor¹¹ to derive the prospective Annual Allowed
 3 Delivery Revenue Per Customer. The calculation of Annual Allowed Delivery
 4 Revenue Per Customer for each electric rate group is shown below and presented
 5 on page 2 of the Fourth Exhibit to my prefiled direct testimony, Exhibit
 6 No. ___(JAP-5).

7 **Table 1 - Calculate Electric Annual Allowed Delivery Revenue Per Customer**

	Proforma Test Year Total Revenue
–	PCA Costs
–	Basic Charge Revenue
=	Test Year Delivery Revenue
÷	Number of Customers
=	Test Year Delivery Revenue Per Customer
x	K-Factor
=	Annual Allowed Delivery Revenue Per Customer

8
 9 A similar process is followed to calculate the Annual Allowed Delivery Revenue
 10 Per Customer for natural gas customers. First, Test Year Delivery Revenue is
 11 calculated by subtracting the sum of (a) basic charge revenue and (b) minimum
 12 charge revenue, from pro forma test year margin revenue used to set current base
 13 rates. Second, this amount is divided by the number of customers during the test
 14 year to derive the Test Year Delivery Revenue Per Customer. Third, the Test
 15 Year Delivery Revenue Per Customer is then multiplied by a K-Factor to derive

¹¹ The calculation of the K-Factor is discussed in more detail later in testimony.

1 the prospective Annual Allowed Delivery Revenue Per Customer. The
 2 calculation of Annual Allowed Delivery Revenue Per Customer for each natural
 3 gas rate group is shown below and presented on page 2 of the Fifth Exhibit to my
 4 prefiled direct testimony, Exhibit No. ___(JAP-6).

5 **Table 2 - Calculate Natural Gas Annual Allowed Delivery Revenue Per Customer**

	Proforma Test Year Margin Revenue
-	Basic Charge Revenue
-	Minimum Charge Revenue
=	Test Year Delivery Revenue
÷	Number of Customers
=	Test Year Delivery Revenue Per Customer
x	K-Factor
=	Annual Allowed Delivery Revenue Per Customer

6 **C. Customers Included in Mechanism**

7 **Q. To which customers do the decoupling proposals apply?**

8 A. Two groups of electric rate schedules in the current tariff book are subject to the
 9 electric decoupling mechanism. The first group is comprised solely of residential
 10 customers (Schedules 7 and 7A). The second group is comprised of non-
 11 residential customers served under Schedules 24, 25, 26, 29, 31, 35, 40, 43, 46
 12 and 49, as well as the related schedules where customers are eligible to participate
 13 in the Bonneville Power Administration’s Residential Exchange Program.
 14 Lighting customers, served on Schedules 51 through 59, and Retail Wheeling
 15 customers are excluded from this proposal.

1 Two groups of natural gas rate schedules in the current tariff book are subject to
2 the decoupling proposal. The first group is comprised solely of residential
3 customers (Schedules 23 and 53). The second group is comprised of non-
4 residential customers served under Schedules 31, 41, 85, 86 and 87.
5 Transportation, rental and special contract customers are excluded from this
6 proposal.

7 **Q. Does the Joint Party proposal include more rate schedules than in the**
8 **Coalition's proposal in PSE's 2011 GRC?**

9 A. Yes. It includes customers served on PSE's high-voltage schedules and this is
10 more consistent with the Commission's preference in the Decoupling Policy
11 Statement to include all classes.¹² It is also noteworthy that representatives of the
12 Company's largest customers took the opportunity to weigh in on the Coalition's
13 decoupling proposal in PSE's 2011 GRC even though they were not included in
14 the proposed mechanism.

15 **Q. Why were the specific rate groups chosen?**

16 A. The grouping of customers strikes a reasonable balance between a desire to
17 minimize cross-subsidization between customer groups and the administrative
18 complexity and increased within-schedule rate volatility that could result from
19 greater delineation of non-residential customers.

¹² Decoupling Policy Statement, ¶28.

1 **Q. For purposes of these decoupling mechanisms, how is “customer” being**
2 **defined?**

3 A. For purposes of this proposal and to promote transparency, customers are defined
4 consistently with the manner in which they are reported in the Company’s
5 financial reports (e.g., its Federal Energy Regulatory Commission Form No. 1 and
6 Securities and Exchange Commission 10-K filings).

7 **Q. Is there separate treatment for new customers?**

8 A. No. The intent of the decoupling mechanisms proposed here is to recover the
9 level of delivery-related revenue that would have been recovered in the absence of
10 conservation. Revenues received from new customers are already included in this
11 calculation. Since this revenue is already incorporated into the development of
12 the allowed revenue under these mechanisms, no other adjustment is needed for
13 new customers

14 **D. K-Factor**

15 **Q. Earlier you discussed the K-Factor. How is it calculated?**

16 A. In simple terms, the K-Factor is calculated for each rate group for each
17 decoupling rate year by dividing (a) the weather-normalized delivery revenue that
18 would have been recovered through base rates in the prior calendar year in the
19 absence of Company-sponsored conservation by (b) the revenue that would have
20 been recovered in the prior calendar year through full decoupling (i.e., without a
21 K-Factor). Specifically, this full decoupling revenue would be calculated by

1 multiplying the Test Year Delivery Revenue Per Customer by the average number
2 of customers in the year.

3 To calculate the weather-normalized delivery revenue that would have been
4 recovered through base rates in the prior calendar year in the absence of

5 Company-sponsored conservation, the conservation savings reported by the
6 Company in its annual filings with the Commission (but not already reflected in
7 the test year to derive current base rates) are added to weather-normalized sales.

8 As part of this calculation, it is assumed that fifty (50) percent of the conservation
9 savings reported during the test year used to derive current base rates are already
10 reflected in test year energy sales. The other 50 percent, which is assumed not to
11 be reflected in test year energy sales, is included in the K-Factor calculation.

12 The derivation of the K-Factor is shown below and for each electric rate group is
13 presented on page 3 of the Fourth Exhibit to my prefiled direct testimony, Exhibit
14 No. ___(JAP-5), and for each gas rate group on page 3 of the Fifth Exhibit to my
15 prefiled direct testimony, Exhibit No. ___(JAP-6). These exhibits demonstrate
16 the derivation of the K-Factor for the 2012 decoupling rate year, which covers the
17 12 months ending April 2013.

Table 3 - Calculate K-Factor

Step 1 - Calculate Weather-Normalized Energy Sales in Absence of PSE Conserv.

	Weather-Normalized Energy Sales
+	PSE Conservation Not Reflected in Test Year
=	Weather-Normalized Energy Sales in Absence of PSE Conserv.
x	Test Year Delivery Cost Energy Rate
=	Weather-Normalized Delivery Revenue w/o PSE Conserv.

Step 2 – Calculate Decoupling Revenue w/o K-Factor

	Test Year Delivery Revenue Per Customer
x	Number of Customers
=	Decoupling Revenue w/o K-Factor

Step 3 – Calculate K-Factor

	Weather-Normalized Delivery Revenue w/o PSE Conserv.
÷	Decoupling Revenue w/o K-Factor
=	K-Factor

Q. Why do you assume that 50 percent of the conservation savings reported is not reflected in the test year energy sales?

A. Company-sponsored conservation savings occur throughout the year as new conservation measures are installed. Conservation measures installed early in the year serve to reduce test year sales through much of the test year, while conservation measures installed later in the year only reduce test year sales a few short months. Since the Company tracks its first-year conservation savings achievement by month, the conservation that is reducing test year sales could be similarly tracked by month. However, the Company’s experience has been that the achievement of savings does not vary enough month-to-month over the course

1 of a year to warrant the added complexity that this more detailed calculation
2 would bring to the K-Factor calculation. As such, the K-Factor calculation makes
3 a simplifying assumption that conservation savings are evenly distributed over the
4 course of the year. The result is that half of the reported first year conservation
5 savings in each year are assumed to be reflected in that year's energy sales.

6 **Q. Is the Commission prevented by statute from using the Company's reported**
7 **conservation savings for decoupling?**

8 A. No, quite the contrary. Statutes provide that PSE should set and meet
9 conservation targets based on savings from Company-sponsored conservation,¹³
10 and they also require the Commission to consider policies to protect companies
11 from a reduction in short term earnings resulting from utility-sponsored
12 conservation.¹⁴ It is well within the Commission's authority to use PSE's
13 reported conservation savings as part of these decoupling mechanisms as
14 proposed by the Joint Parties.

15 **Q. PSE is proposing to use reported conservation savings that may not be**
16 **officially "verified" until later. How reliable are PSE's reported figures?**

17 A. PSE's reported savings are very reliable. For example, in the last biennial period,
18 nearly ninety-nine (99) percent of PSE's reported savings were verified by the

¹³ RCW 19.285.040(1)

¹⁴ RCW 80.28.260(3)

1 Commission in determining the Company's compliance with RCW 19.285.15.

2 **Q. What happens if the reported energy savings used to calculate the K-Factor**
3 **differ from the verified savings amounts?**

4 A. If there are differences between the reported and verified savings in any calendar
5 year, PSE will recalculate the Allowed Delivery Revenue that the Company
6 would have recovered using the verified amounts, apply the proposed rate of
7 interest on the impact to the deferred balances,¹⁶ and flow the difference through
8 to customers in a subsequent decoupling rate true-up.

9 **Q. Does the K-Factor simply address the Company's problem with earnings**
10 **attrition?**

11 A. No. As discussed above, the K-Factor responds to the legislative directive that
12 the Commission shall consider policies to protect a company from a reduction of
13 short term earnings that may be a direct result of utility programs to increase the
14 efficiency of energy use. As such, it is a means for addressing part, but not all, of
15 the Company's earnings attrition problem.

16 **Q. What do you mean when you say that it addresses only part of the**
17 **Company's earnings attrition problem?**

18 A. There are at least two components to earnings attrition; upward pressures on cost
19 growth and downward pressures on revenue growth. The K-Factor is only

¹⁵ As approved in Commission Order 07, Docket No. UE-100177.

¹⁶ This is discussed later in testimony.

1 intended to address downward pressures on revenue growth due to conservation.

2 **Q. Is it appropriate to use decoupling mechanisms to address this aspect of**
3 **earnings attrition?**

4 A. Yes, in fact the full decoupling mechanism outlined in the Commission's Policy
5 Statement is also intended to address this component of attrition (i.e., the
6 downward pressure on revenue growth created by conservation). However, the
7 full decoupling mechanism with a K-Factor more fully addresses the contribution
8 of Company-sponsored conservation to earnings attrition.

9 **Q. Can you elaborate?**

10 A. Yes. The full decoupling mechanism outlined in the Commission's Decoupling
11 Policy Statement relies on the level of use per customer that existed in a utility's
12 rate case test year as its barometer of whether conservation is contributing to
13 earnings attrition. Simply put, this view holds that, as long as use per customer
14 does not drop below historic test year levels, conservation not already reflected in
15 test year sales does not contribute to earnings attrition. However, this view fails
16 to address the fact that use per customer may otherwise be growing in the absence
17 of conservation. As a result, this view may only address a fraction of the
18 contribution made by Company's conservation program to its earnings attrition.¹⁷

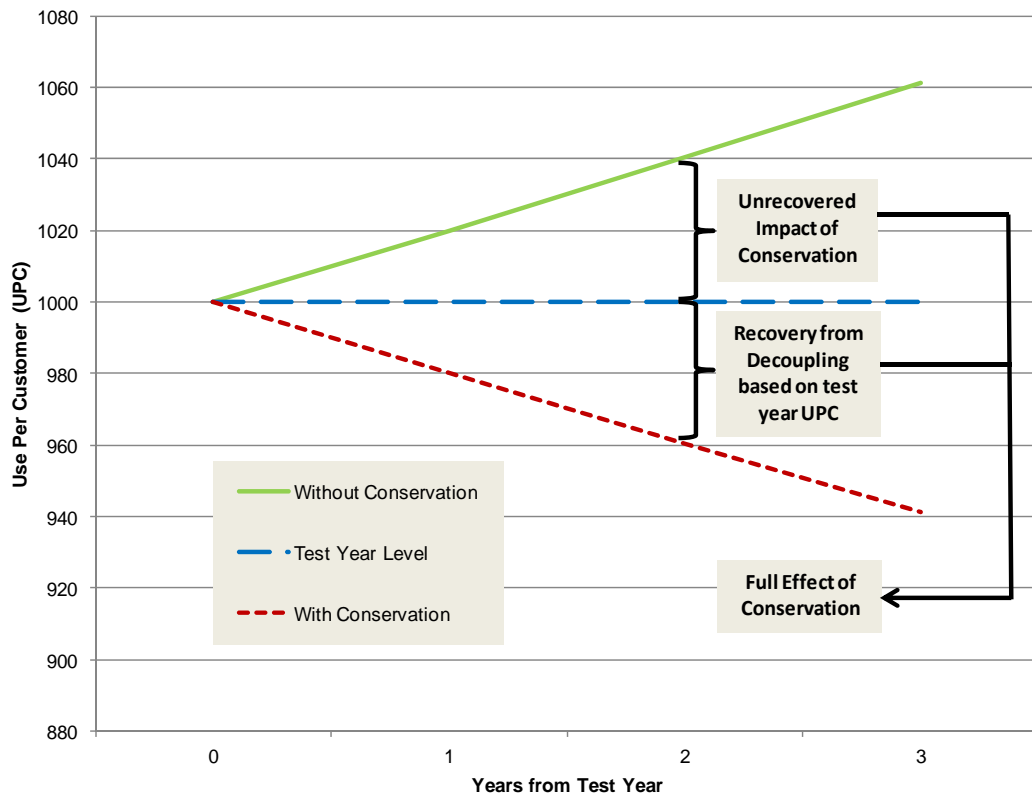
¹⁷ In fact, in instances where realized use per customer is increasing, the Commission's full decoupling mechanism would address none of the Company-sponsored conservation's contribution to a utility's earnings attrition and do nothing to provide the protections called for in RCW 80.28.260(3).

1 An alternative view is that any conservation achieved by a utility, and not already
2 reflected in the test year sales used to establish current rates, weighs on its
3 potential earnings attrition because every kWh or therm of energy savings is
4 reducing revenue growth (and short-term earnings). Under this view, the
5 barometer for determining the impact of conservation on earnings attrition is the
6 use per customer that would have been experienced in the absence of the
7 conservation achieved by a utility's programs, but that are not reflected in its most
8 recent rate case test year.

9 Contrasting these views, the need for a K-Factor arises when the rate year use per
10 customer in the absence of Company-sponsored conservation programs is
11 expected to be higher than the level assumed in the rate case test year. This is the
12 situation in which PSE currently finds itself, particularly in the near term. This
13 concept is portrayed graphically in Figure 1.

1

Figure 1 - Effects of Conservation on Energy Use Per Customer



2

3 **Q. Please explain Figure 1.**

4 A. Figure 1 shows conceptually how a decoupling mechanism that relies solely on
 5 the use per customer experienced in a rate case test year can fall short of
 6 addressing the full effects of a utility’s conservation program. As shown above,
 7 the downward sloping dotted line is the hypothetical trajectory of use per
 8 customer after the test year, including the downward pressure brought to bear by
 9 utility-sponsored conservation. The horizontal dashed line shows the test year
 10 level of use per customer. The difference between these two lines beyond the test

1 year indicates the amount by which the effects of a utility's conservation
2 programs are addressed by a full decoupling mechanism without a K-Factor.

3 However, as illustrated by the upward sloping solid line, in this hypothetical
4 example, the utility would have experienced use-per-customer growth in the
5 absence of conservation following the test year. In this situation, the full effect on
6 use per customer by conservation not reflected in the test year is measured by the
7 difference between the solid and dotted lines. As a result, the difference between
8 the hypothetical solid and dashed lines in Figure 1 is the amount by which a full
9 decoupling mechanism without a K-Factor would fall short of capturing the full
10 effects of conservation following the test year.

11 **Q. Does the K-Factor violate the matching principle?**

12 A. No, in fact it helps to restore it. When the concept of matching historic revenues
13 and costs to determine future rates was developed many decades ago, the use of
14 conservation was not nearly as impactful or widespread as it is today.
15 Historically, without conservation, revenues were allowed (even encouraged) to
16 grow to keep pace with the growth in costs. In more recent times, as utilities have
17 relied more heavily upon conservation to meet their resource obligation, the
18 historic matching of costs and revenues has been derailed. This explains, at least
19 in part, the recent wave of rate filings by utilities in this state and elsewhere. It
20 also explains the need for the K-Factor, which restores some of the balance
21 between a utility's growth in cost and the growth in revenue that would have been
22 experienced in the absence of its acquisition of conservation resources. Exhibit

1 No. ___(JAP-7) shows how the K-Factor under varying growth assumptions
2 preserves the match between reserves derived from the number of customers
3 served and revenues derived from energy sales in the absence of Company-
4 sponsored conservation.

5 **Q. Are the proposed mechanisms with the K-Factor expected to produce large**
6 **rate impacts?**

7 A. No. Under normal conditions, PSE expects the bill impacts associated with its
8 mechanism to be relatively small, perhaps up to a one-percent increase on an
9 average customer's bill. Moreover, these mechanisms also include protections
10 against rate increases (discussed later) and could also reduce customers' bills.

11 **Q. So, the proposed full decoupling mechanisms would still operate as “two-**
12 **sided” mechanisms?**

13 A. Yes. Once the Company's allowed revenues are approved by the Commission,
14 the impact from changes in use per customer will flow through the proposed
15 mechanisms to result in customer rebates or surcharges, just as they would under
16 the full decoupling mechanism described in the Commission's Decoupling Policy
17 Statement.¹⁸ The primary difference, with the K-Factor, is that the allowed
18 revenues are set based on more recent information regarding the Company's
19 conservation achievement and other external factors affecting its energy sales.

¹⁸ For example, applying the Monthly Allowed Delivery Revenue Per Customer proposed in this filing to data for calendar year 2012 produces an over-collection of \$5.4 million for residential natural gas customers through the end of September.

1 **Q. Please explain how the K-Factor reflects more recent information regarding**
2 **the other external factors influencing the Company's energy sales?**

3 A. In each rate case, a historic test year is used to derive rates. All of the external
4 factors affecting the Company's energy sales are reflected in those test year sales.
5 This data is at least twenty-seven (27) months old, and grows more stale as time
6 elapses between rate cases. The data used to calculate the K-Factor, on the other
7 hand, is (on average) sixteen (16) months old and, therefore, reflects more current
8 factors influencing the Company's energy sales. In essence, the K-Factor reduces
9 some of the "regulatory lag" inherent in the use of the more stale rate case
10 information, specifically the lag associated with factors affecting the Company's
11 energy sales.

12 **Q. Does this partial reduction in regulatory lag necessarily benefit the Company**
13 **at the expense of customers?**

14 A. No. External factors influencing the Company's energy sales could go either
15 way. Weather effects on the decoupling mechanism will still go either way. The
16 same is true for economic impacts. However, reducing this lag may improve
17 customer acceptance of the decoupling mechanisms by better aligning the
18 resulting rate credits or surcharges with the more current economic realities facing
19 PSE's customers.

20 **Q. Please explain.**

21 A. This may be best understood by way of example. Assume that economic activity
22 suddenly dropped, like it did a few years ago. The resulting downward pressure

1 on energy sales would be reflected in the calculation of the K-Factor more quickly
2 than a decoupling mechanism that continued to rely on old general rate case
3 information. A decoupling mechanism without a K-Factor would continue to
4 operate as if there were no change in economic activity (i.e., versus the rate case
5 test year) and would produce greater subsequent surcharges to customers.¹⁹ Under
6 this situation, the less the rate case test year reflects current realities, the greater
7 the surcharges associated with a decoupling mechanism without a K-Factor. On
8 the other hand, a decoupling mechanism with a K-Factor would have reduced
9 allowed revenue to better reflect the more recent economic environment.

10 While the converse is also true, there is still a benefit to customers in that the size
11 and direction of customer surcharges or credits associated with a decoupling
12 mechanism with a K-Factor would better align with current economic realities.
13 Hopefully, this would make the resulting rate adjustments more readily
14 understood by customers.

15 **Q. Is the Company currently exploring other opportunities to address its**
16 **challenges with regulatory lag?**

17 A. Yes. In PSE's last general rate case, the Commission expressed a willingness to
18 consider Commission Staff's conceptual proposal for an expedited rate filing to
19 address regulatory lag. PSE has been exploring this possibility with interested
20 stakeholders.

¹⁹ All other things being equal.

1 **Q. If the Company's rates were set in such an expedited filing, how would it**
2 **affect the operation of the proposed decoupling mechanisms?**

3 A. The mechanisms proposed here would work equally well under the existing
4 general rate case paradigm as it would under the alternative ratemaking
5 approaches being discussed with stakeholders. Instead of using a general rate
6 case test year as the basis for many of the calculations, the decoupling
7 mechanisms would be calculated on the (presumably) more current test year in the
8 alternative approaches. Since regulatory lag should be reduced under these
9 alternative ratemaking approaches, the deferrals resulting from the decoupling
10 mechanisms should be reduced, as should the impact of the K-Factor on the
11 operation of these mechanisms.

12 **Q. What assurance can you provide that the proposed decoupling mechanisms**
13 **will not reduce PSE's incentive to prudently manage the Company in an**
14 **efficient manner?**

15 A. Allowing the recovery of the Company's delivery costs on a per-customer basis,
16 whether with or without a K-Factor, does not affect a utility's incentive to control
17 its costs. Once a utility's rates are set, it has an incentive to control costs,
18 regardless of the means by which its costs are recovered, volumetrically or on the
19 basis of customers served. Cost reductions increase potential earnings under
20 either situation.

21 **Q. Does the K-Factor, in effect, make the decoupling mechanism an incentive**
22 **mechanism?**

1 A. No. To provide an incentive, more conservation achievement must result in
2 higher earnings for the Company. Under the decoupling proposal made in this
3 filing, to the extent that PSE achieves more conservation,²⁰ the amount of revenue
4 the Company would have recovered in the absence of its conservation programs
5 remains unchanged. So, while it is true that incremental conservation will
6 increase the revenue recovered through the decoupling mechanism, this is directly
7 offset by the Company's lost retail sales revenue due the effects of this
8 conservation. Therefore, there is no effect of incremental conservation under this
9 decoupling proposal on the Company's short term earnings.

10 **Q. Does the K-Factor proposed in this filing address the full effect of Company-**
11 **sponsored conservation?**

12 A. No. While the Company believes that the full effect of its conservation programs
13 should rightfully be considered, to do so would require rate year projections of
14 use per customer, with and without the effects of forecasted conservation
15 following the test year. The Company recognizes that stakeholders may be
16 reluctant to rely on such forecasts, and so the proposal here relies on historic
17 results to develop the K-Factor. This leaves an average of sixteen (16) month's
18 worth of conservation achievement, occurring between the decoupling rate year
19 (beginning May 1) and the preceding calendar year, unaccounted for in the K-

²⁰ For example, by way of the proposal made in this filing for the Company to further accelerate its achievement of electric conservation relative to its statutory requirements.

1 Factor calculation and continuing to hamper the Company's ability to recover its
2 delivery costs.

3 **Q. Is the K-Factor consistent with revenue decoupling practices in other**
4 **jurisdictions?**

5 A. Yes. This issue is addressed in more detail in the Prefiled Direct Testimony of
6 Ralph Cavanagh, Exhibit No. ____ (RCC-1T).

7 **E. Actual Delivery Revenue**

8 **Q. You mentioned earlier that the difference between Actual Delivery Revenue**
9 **and Allowed Delivery Revenue is deferred as part of the decoupling proposal.**
10 **What is Actual Delivery Revenue?**

11 A. Actual Delivery Revenue is the level of revenue actually received through PSE's
12 volumetric charges to cover the costs associated with its electric and natural gas
13 delivery system that are not otherwise recovered through the Company's fixed
14 charges (e.g., basic charges).

15 **Q. How is Actual Delivery Revenue calculated?**

16 A. The Test Year Delivery Cost Energy Rate is first calculated for each electric and
17 natural gas rate group. This is calculated by dividing the Test Year Delivery
18 Revenue, discussed earlier, by test year weather-normalized sales (kWh or therm)
19 used to derive rates. This is shown on page 3, line 6 of the Fourth and Fifth
20 Exhibits to my prefiled direct testimony, Exhibit Nos. ____ (JAP-5 and JAP-6).

1 The Actual Delivery Revenue is then calculated for each natural gas and electric
2 rate group in each month of the decoupling rate year by multiplying each rate
3 group's Test Year Delivery Cost Energy Rate by the actual sales for that group in
4 the current month. The actual sales are not weather normalized as part of this
5 calculation.

6 **F. Deferral Accounting**

7 **Q. Please describe the accounting for the proposed decoupling mechanisms.**

8 A. For each natural gas and electric rate group, the decoupling deferral amounts in
9 each month are determined by subtracting the Allowed Delivery Revenue for each
10 group from the Actual Delivery Revenue recovered from the same group in the
11 same month. The difference, either positive or negative, would be recorded in a
12 deferred debit or deferred credit account. As the calculation of the deferred
13 balances relies on historic revenue that is recovered over a subsequent period, the
14 Joint Parties propose the accrual of interest on the cumulative deferred balances,
15 positive or negative, at the Company's authorized after-tax rate of return grossed
16 up for income taxes.

17 **Q. How will the accumulated decoupling deferred balances be surcharged or**
18 **credited to customers?**

19 A. The cumulative deferred decoupling balances accrued by each rate group through
20 the end of each calendar year will be amortized over a 12-month period through a
21 decoupling tariff tracker rate schedule effective May 1 in the following year. The

1 tracker rate adjustment (up or down) will be calculated separately for each rate
2 group to clear that group's deferred balances. Subject to the limit on rate
3 increases outlined later in this proposal, the rate adjustment for each electric and
4 natural gas group will be calculated as a single cents per kilowatt-hour or cents
5 per therm charge, respectively.

6 Any difference between the amount projected to be cleared and the amount
7 actually cleared through the application of the tariff tracker will be added to the
8 amount to be cleared in the subsequent rate period. This is very similar to the
9 process already being successfully used in the Company's Purchased Gas
10 Adjustment ("PGA") mechanism and Schedule 120 conservation rate filings.

11 **G. Decoupling Filing Process**

12 **Q. Please briefly describe the procedural schedule for the proposed decoupling**
13 **mechanisms.**

14 A. No later than April 1 of each year, PSE will make a filing to set: (a) the Monthly
15 Allowed Delivery Revenue Per Customer that will be used to calculate the
16 decoupling deferrals in the upcoming decoupling rate year; and (b) the tariff
17 trackers intended to clear the deferred balances and accrued interest accumulated
18 through the end of the prior calendar year. The proposed Monthly Allowed
19 Delivery Revenue Per Customer and tariff tracker would be filed with effective
20 dates of May 1 of each year.

21 **Q. Will this provide sufficient time for review?**

1 A. Yes. The Joint Parties do not contemplate the need for a significant amount of
2 time or effort to review these filings, as much of the data used to perform the
3 calculations will be available from published sources, and these data sources (e.g.,
4 the Company's Annual Conservation Report, Commission Basis Report and 10-
5 K) often will have their own vetting process.

6 **Q. If the Commission grants approval of these mechanisms prior to May 1 of**
7 **next year, will there be another filing at that time?**

8 A. Yes. It will also be important to recalculate the K-Factor at that time, as an
9 additional calendar year of conservation achievement will have accumulated since
10 the last rate case test year and should be reflected in the Company's Allowed
11 Delivery Revenue. As discussed earlier, the proposed Monthly Allowed Delivery
12 Revenue Per Customer was shaped to match the normal seasonality of revenues
13 collected through volumetric charges. So, there should be no difficulty in
14 operating the mechanisms for an abbreviated period, before moving them to their
15 normal schedule.

16 **H. Presentation on Customer Bills**

17 **Q. Will the decoupling rate adjustments be portrayed as a separate line-item on**
18 **customers' bills?**

19 A. No. The rate adjustments resulting from this decoupling proposal will be
20 portrayed on customers' bills as part of base energy rates. Since base rates and
21 the decoupling rate adjustments are intended to work in tandem to recover a
22 common set of costs, presenting the rates separately on customers' bills will only

1 confuse customers as to the individual purpose of each rate component. Adding
2 the rate components together on customers' bill avoids this unnecessary
3 confusion. Simply put, the proposed decoupling mechanisms do not recover any
4 different costs than already approved by the Commission in the setting of base
5 rates, they simply allow an alternative means by which to recover them.

6 **IV. ALIGNMENT OF DECOUPLING PROPOSAL WITH**
7 **COMMISSION'S DECOUPLING POLICY STATEMENT**

8 **Q. What were the requirements and criteria in the Decoupling Policy Statement**
9 **upon which the Commission would consider a full decoupling mechanism?**

10 A. The Commission's Decoupling Policy Statement noted a number of proposed
11 requirements and criteria that would be considered in approving a proposed
12 decoupling mechanism. These include the following:

- 13 1. A description of the decoupling true-up mechanism
- 14 2. The impact of the mechanism on rate of return
- 15 3. The earnings test proposed in association with the mechanism
- 16 4. The accounting of off-system sales and avoided costs in association with
17 the mechanism
- 18 5. The applicability of the mechanism to customer classes
- 19 6. The effects of weather in the mechanism
- 20 7. Evidence of incremental conservation associated with the mechanism
- 21 8. Effect of mechanism on low-income customers
- 22 9. The proposed duration of the mechanism
- 23 10. An evaluation report on the mechanism
- 24 11. Other factors impacting the public interest.

1 **Q. Has your testimony already described the decoupling true-up mechanism?**

2 A. Yes, this was discussed in Section III of my testimony.

3 **Q. Has the Company evaluated the impact of the proposed mechanism on its**
4 **rate of return?**

5 A. No. The Joint Parties respectfully suggest that it is premature to evaluate
6 whether, or the extent to which, the mechanism will have an impact on the
7 Company's cost of capital. It is unknown and unknowable at this time. As such,
8 and since the Company's cost of capital was only recently evaluated by the
9 Commission in PSE's last general rate case, the Joint Parties propose that there be
10 no immediate change to the allowed rate of return as part of the decoupling
11 proposal.

12 However, to ensure a timely examination of any effect the decoupling
13 mechanisms may have on its cost of capital, PSE proposes to file at least one
14 general rate case, or make some other filing in which its cost of capital can be
15 fully examined by the Commission, between three (3) and five (5) years of the
16 date that decoupling-related deferrals commence as part of this proposal. This
17 should allow enough time to determine whether there was a measurable effect on
18 PSE's cost of capital by this mechanism. At the same time, it does not allow so
19 much time to pass as to unnecessarily delay customers' realization of any
20 potential decoupling-induced reductions in the Company's cost of capital, if any.

1 **Q. Is there a proposed earnings test associated with the proposed decoupling**
2 **mechanisms?**

3 A. The Joint Parties do not recommend an earnings test as part of the operation of the
4 decoupling mechanisms (for reasons explained in the Coalition’s initial testimony
5 in PSE’s 2011 GRC). However, if the Commission nevertheless decides one
6 should be applied, the Joint Parties would advocate that the Company be allowed
7 to earn up to twenty-five (25) basis points above its authorized rate of return on
8 combined electric and natural gas rate base before limiting recovery of the
9 deferral to fifty (50) percent of the amount in excess of the earnings threshold. As
10 observed in the Commission’s Decoupling Policy Statement, “some experts in the
11 theory and practice of regulation caution commissions to engage in regulation that
12 constantly provides incentives for a utility to cut costs. Such prudent actions on
13 the part of the utility serve to benefit the utility as well as, in the long run, the
14 ratepayers.”²¹ Allowing a sharing of benefits over the earnings threshold would
15 preserve the motivation for the Company to continue to manage its costs when it
16 was earning in excess of its allowed return.

17 **Q. Do the proposed decoupling mechanisms explicitly account for off-system**
18 **sales and the associated avoided cost of wholesale power and gas supply?**

19 A. The Joint Parties respectfully submit that doing so is unnecessary because these
20 issues are already sufficiently addressed in the Company’s PGA and PCA

²¹ Decoupling Policy Statement, page 16, ¶26.

1 mechanisms. Further, it will only serve to unnecessarily complicate the
2 administration of the decoupling mechanisms.

3 **Q. Please explain.**

4 A. First, regarding gas supply, since PSE's wholesale gas supply costs are treated as
5 a pass-through to customers, the benefit of any conservation-induced avoided gas
6 supply costs would accrue to the benefit of customers through application of the
7 Company's PGA mechanism. As a result, no additional accounting is necessary
8 for wholesale gas costs.

9 Regarding electricity supply, the Commission has already acknowledged that
10 "[f]or utilities with a power cost adjustment mechanism, loads are projected in a
11 future test year, with reductions in the load for the expected conservation levels.
12 Consequently, for the effective rate year following the setting of rates, only
13 conservation above the expected level of conservation would result in an
14 opportunity to reduce power costs or realize additional revenues from incremental
15 sales."²² As a result, at most there would be small deviations from the amounts of
16 conservation already projected in the rate year (i.e., not the absolute level of
17 conservation achieved). Moreover, the effects of these small differences between
18 projected and actual conservation beyond the test year would occur regardless of
19 the presence or absence of the electric decoupling mechanism and unnecessarily
20 (and unfairly) burdens its application. Further, attempting to account for these
21 effects may lead to unforeseen and unintended consequences in the interaction

²² Decoupling Policy Statement, footnote 45.

1 with PSE's PCA mechanism.

2 **Q. Has your testimony already discussed which customers are affected by the**
3 **decoupling proposals?**

4 A. Yes, this was discussed in Section III of my testimony.

5 **Q. How are the effects of weather incorporated in the proposed decoupling**
6 **mechanisms?**

7 A. As mentioned previously, Actual Delivery Revenue used to determine the
8 decoupling deferrals will not be adjusted for the effects of weather, which is in
9 accord with the Decoupling Policy Statement.

10 **Q. Will the proposed decoupling mechanisms produce additional conservation**
11 **achievement on the part of the Company?**

12 A. The Joint Parties recognize that the Commission expects utilities with revenue
13 decoupling mechanisms to meet or exceed their conservation targets. To that end,
14 as an integrated part of this proposal, PSE will commit to achieve conservation
15 five (5.0) percent above the levels approved by the Commission for PSE's
16 biennial conservation target and submit itself to penalties equivalent to those
17 outlined in RCW 19.285 for failure to achieve these incremental savings.²³ In
18 other words, PSE will agree to achieve twenty-one (21) percent of its ten-year
19 conservation potential, which sets a pace for achieving its ten-year conservation

²³ As outlined in RCW 19.285.

1 potential over a period of roughly nine and one-half (9.5) years. It is important to
2 note that PSE has historically accelerated the achievement of conservation in its
3 integrated resource planning to achieve twenty (20) years of potential
4 conservation over the first ten (10) years of the planning horizon. This proposal
5 would serve to further accelerate PSE's achievement of cost-effective
6 conservation.

7 Given this proposal to voluntarily raise the Company's electric biennial
8 conservation achievement above the level approved by the Commission as PSE's
9 biennial conservation target, no further test of conservation achievement is being
10 offered as part of the administration of these proposed mechanisms (i.e., there is
11 no proposed "DSM test").

12 **Q. Is the Company also proposing to increase its natural gas conservation**
13 **achievement as part of this proposal?**

14 A. Given the heightened volatility in the cost-effectiveness of natural gas
15 conservation programs in recent years, the Joint Parties believe it would not be
16 practical to make such commitments at this time.

17 **Q. How will low-income customers be impacted by the decoupling proposals?**

18 A. Issues surrounding PSE's low-income conservation program were discussed at
19 length in PSE's 2011 GRC. As discussed in that proceeding, PSE already
20 provides low-income ratepayers with programs aimed at achieving a level of
21 conservation that is comparable to that achieved by other ratepayers, which meets

1 the low-income guidance set forth in the Commission's Decoupling Policy
2 Statement. However, the Company recognizes that even more can be done.

3 That said, as part of this decoupling proposal, PSE commits to propose additional
4 Low Income Weatherization funding in 2013 and beyond. In 2013, PSE will be
5 launching an updated funding structure developed in partnership with its social
6 service agencies and the Energy Project that will encourage sustained program
7 production with or without the assistance of leveraging state and federal funding
8 sources. While the updated structure is yet to be implemented, PSE is confident
9 that, with it in place, social service agencies could spend twenty (20) percent
10 beyond the proposed budgeted amounts in 2013. The increase would equate to
11 approximately a \$500,000 annual increase in electric schedule 201 funding.

12 **Q. Will the rate impacts of the decoupling mechanism present a disproportional**
13 **burden on PSE's low-income customers?**

14 A. No. As mentioned earlier, the mechanism can work in either direction (i.e., it can
15 produce a bill credit or a bill surcharge). Further, low-income advocates often
16 note that the energy use per customer of low-income customers is less than the
17 average residential customer. Based on this assumption, since the proposal for
18 these mechanisms is to implement the credit or surcharge through a volumetric
19 rate, the bill impact on low-income customers should be less (i.e., on a percentage
20 basis) than the average residential customer.

21 **Q. What is the proposed duration of the decoupling mechanisms?**

1 A. The Joint Parties propose that the decoupling mechanisms remain in effect for no
2 less than five years after their initial effective date, subject to approval by the
3 Commission, upon a filing by the Company, for its continuation.

4 **Q. Will there be an evaluation of the proposed decoupling mechanisms?**

5 A. Yes. The details of this evaluation are discussed at length in the Accounting
6 Petition. PSE is supportive of this evaluation as currently proposed.

7 **Q. Are there any other factors to consider regarding the proposed decoupling
8 mechanisms that weigh on whether their approval is in the public interest?**

9 A. Yes. The decoupling proposal also includes a limit on potential rate increases as a
10 result of decoupling. Specifically, the tracker rate adjustment calculated to clear
11 each electric and natural gas rate group's deferred decoupling balances will be
12 limited so as not to exceed three (3.0) percent of the average base rates for that
13 group at the time the decoupling tariff tracker goes into effect. If the calculated
14 rate adjustments will result in a reduction in customers' bills, there will be no
15 limit on such changes to rates. To the extent that deferred balances are not
16 cleared as a result of the limits placed on increases to the decoupling tariff tracker,
17 the amount of the balances not surcharged will remain in the deferred balances
18 and will be recoverable in the subsequent rate period subject to the same limits on
19 potential rate increases.

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

21 A. Yes.