

**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,**

**Complainant,**

**v.**

**PUGET SOUND ENERGY**

**Respondent.**

**Docket No. UE-170033  
Docket No. UG-170034  
(consolidated)**

**PUGET SOUND ENERGY'S HEARING TRANSCRIPT CORRECTIONS**

**SEPTEMBER 13, 2017**

**PUGET SOUND ENERGY’S TRANSCRIPT CORRECTIONS FOR THE GENERAL  
RATE CASE HEARING ON AUGUST 30, 2017  
DOCKETS UE-170033 & UG-170034 (CONSOLIDATED)**

<b>PAGE</b>	<b>LINE</b>	<b>CORRECTION</b>
197	17	“Commissioners?” should be “Commissioners.”
198	24	“rights of the projects” should be “right projects”
200	9	“rights of the projects” should be “right projects”
217	8	“Kathy” should be “Kathie”
236	17	“spend” should be “found”
266	10	“highest five-year peaks” should be “highest five peaks in the most recent three years”
280	18	“generator” should be “generated”
289	2	“birth test year” should be “ERF test year”
295	5	“open to if” should be “open to it if”
296	24-25	“existing groupings groups together customers” should be “existing groupings grouped together with customers”
306	25	“came it on the 19th” should be “came on the 19th”
307	16	“unless” should be “that”
321	9	“46-TC” should be “46CT”
333	12	“46CG” should be “46CT”
336	8	“we pro forma” should be “we proform”
342	4	“levels” should be “loads”
343	7	“and” should be “in”

BEFORE THE WASHINGTON

UTILITIES AND TRANSPORTATION COMMISSION

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

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HEARING, Volume III

Pages 146 to 367

ADMINISTRATIVE LAW JUDGE DENNIS MOSS  
and  
ADMINISTRATIVE LAW JUDGE RAYNE PEARSON

9:00 a.m.

August 30, 2017

Washington Utilities and Transportation Commission  
1300 South Evergreen Park Drive Southwest  
Olympia, WA 98504-7250

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OSHIE/KOCH

1 approval process for the work plan?

2 Q. (BY MR. OSHIE) Yes, the approval process,  
3 sorry. That might have been one of those slips, I  
4 suppose. But yes, the approval process; that's exactly  
5 what I meant.

6 A. So if we follow the process that's in place here  
7 in Washington relative to the Gas Cost Recovery  
8 Mechanism or the Accelerated Pipeline Replacement  
9 Policy -- I think I have the right ones here -- PSE  
10 submits their plan. The Staff reviews that plan  
11 relative to the projects, that it meets the objectives  
12 of, in that case, the policy, that they agree that those  
13 projects will deliver the benefits that are outlined  
14 there. They then take that recommendation of what they  
15 believe relative to that plan, and they take it forward  
16 in a hearing or an open public meeting relative to the  
17 Commissioners?

18 Q. How much time will Staff have to review the work  
19 plan?

20 A. We would submit that with adequate time. I  
21 think in the gas side we submit it six months in advance  
22 of starting that plan.

23 Q. And you expect, then, that the Electric Work  
24 Reliability Plan would then be filed six months ahead of  
25 the date in which construction would begin on new

OSHIE/KOCH

1 projects?

2 A. If we follow the gas process, that would be what  
3 we would do.

4 Q. Well, I guess that's my question. Are you  
5 following the gas process or are you not? Or has that  
6 not been discussed by the Company as to when you're  
7 actually going to submit the plan for review by Staff?

8 A. PSE's proposed this, to follow that process. I  
9 think part of this discussion is whether there's  
10 agreement to that from the Commission, that PSE proposed  
11 that we would follow that same model. It seems to work  
12 very well here.

13 Q. So the proposal is six months prior to the  
14 proposed construction date of the projects that are  
15 included in the work plan?

16 A. I don't have the exact dates that we do that.  
17 That's what my memory serves from the gas side of what  
18 we do.

19 Q. So would the Company seek any input of other  
20 parties other than Staff in the review of the work plan?

21 A. I think in developing the work plan, as far as  
22 the project specifics, the Company does seek input from  
23 jurisdictions, from stakeholders, from customers to  
24 develop the ~~rights of the projects~~. And that's in  
25 developing that set of projects.

right projects

OSHIE/KOCH

1 really the role of the management of the Company or the  
2 board of directors to decide what capital projects are  
3 needed by the Company, and isn't it really -- I mean,  
4 that's how I personally envision the role of the board  
5 of directors, as an example. Wouldn't that be true? I  
6 mean, aren't the capital projects approved by the board?


7 A. PSE would still follow its internal processes,  
8 and PSE determines what we think the ~~rights of the~~  
9 ~~projects~~ are. We still own that responsibility,  
10 absolutely. right projects

11 Q. So isn't the Commission, then, acting as sort of  
12 a super board of directors in that kind of a  
13 circumstance where you come to the Commission with your  
14 proposed projects and you ask the Commission to approve  
15 them prior to going forward under -- and I think later  
16 on in your testimony in part you say and if the  
17 Commission doesn't approve it you'll -- you're not going  
18 to go forward with it?

19 A. So I think the way it works on the gas side is  
20 that the Commission isn't approving a specific project,  
21 they're approving that the work plan meets the  
22 objectives set forth by, in that case, the policy  
23 relative to addressing elevated pipeline risks in that  
24 case. So it's that the work plan meets the objectives  
25 that are trying to be accomplished.

BRYANT/KOCH

1 traditional regulation, but the Company may suffer  
2 earnings if it did this without the additional revenues  
3 requested from the ECRM?

4 A. Yes. It says that if we were to spend or invest  
5 as the ERP or the ECRM has proposed and do that under  
6 traditional rate making, we would experience loss in  
7 revenue requirements. I think when we start to get into  
8 earnings, we might redirect to ~~Kathy~~ Barnard for more  
9 strength in accounting. 

10 Q. Okay. Well, I'll see if I need to address this  
11 next question for her.

12 So would you agree that your concern about  
13 earnings erosion due to regulatory lag applies  
14 generically to all the Company's discretionary  
15 investments and expenses because any higher spending  
16 between test years' GRC cases tends to increase pressure  
17 on the Company's earnings?

18 A. Ms. Barnard is going to be better at answering  
19 that.

20 Q. Thank you. So is it your opinion that PSE would  
21 rather let its service quality deteriorate than incur  
22 capital spending at rates that may reduce earnings?

23 A. PSE doesn't want to let its reliability  
24 performance deteriorate, which is why we brought this  
25 mechanism or this plan forward. Without the timely

GAFKEN/BARNARD

1 form of decoupling approved for PSE is revenue per  
2 customer decoupling?

3 A. I'm actually not the Puget witness testifying on  
4 decoupling.

5 Q. So I should defer that question to Mr. Piliaris?

6 A. You probably should.

7 Q. I will do that. I'm going to ask a couple of  
8 these questions and see if you can answer them, and if I  
9 have to defer them I'll do that.

10 Would you turn to Cross Exhibit KJB-50X.

11 A. I'm there.

12 Q. And you're listed as the witness knowledgeable  
13 about the response, but you can tell me if I should  
14 defer some of these questions to Mr. Piliaris.

15 A. Okay.

16 Q. In Cross Exhibit KJB-50X, Public Counsel asked  
17 for your understanding of ~~spend~~ margins and also your  
18 understanding of Mr. Brosch's testimony; is that  
19 correct?

found

20 A. That is correct.

21 Q. And the response states that Mr. Piliaris and  
22 not you testified about decoupling, and then you recite  
23 Mr. Brosch's testimony per your understanding. Is that  
24 correct?

25 A. That is correct.



CASEY/PILIARIS

1 associated operating cost with the capacity itself.  
2 Probably not a great amount, but I'm sure there is  
3 some -- there's some, I guess, feedback through the  
4 operating cost. highest five peaks in the most recent three years

5 Q. The peak load in the test year is lower than the  
6 design day system peak load; correct?

7 A. I don't know off the top of my head what the  
8 peak load was in the test year. I know that Staff had  
9 used actual load. Sort of what had been used before is  
10 the ~~highest five-year peaks~~, actual peaks. And the  
11 average of those was somewhere in the vicinity of about  
12 6 million therms and our design day is 9 million therms.  
13 So as a consequence of the pretty warm winters we've had  
14 over the past several winters, the actual peaks have  
15 been quite a bit below the design criteria. So 6 versus  
16 9, so roughly 50 percent.

17 Q. Has PSE's natural gas distribution system ever  
18 experienced a load equivalent to the design day load?

19 A. I can't -- I don't know. But I would say that  
20 we're required to -- in other words, to meet our  
21 reliability and our operating standards, we need to be  
22 capable of meeting that load.

23 The consequences on the gas side are quite a bit  
24 more dire when you lose pressure on the gas system  
25 relative to the electric side where you open up a

CASEY/PILIARIS

1 A. Based on the approved rates, that's correct.

2 Q. And over that time, that revenue shortfall has  
3 been made up by PSE's other customers; correct?

4 A. I would say that is correct by design. They  
5 would pay probably even more in the absence of the  
6 special contract.

7 Q. At any time has the special contract charges  
8 decreased to a point at which the revenue produced by  
9 the contract would fall below the Company's authorized  
10 rate of return?

11 A. Based on the Company's interpretation of the WAC  
12 and which costs would need to be -- fixed costs would  
13 need to be recovered, I would say the answer is no.  
14 It's always been well in excess of the incremental fixed  
15 cost that's serving those customers.

16 Q. So you're saying that it hasn't fallen below the  
17 Company's rate of return? generated

18 A. I'm saying that the revenues ~~generator~~  
19 special contract are well in excess of the amount  
20 necessary to recover the return on the incremental plant  
21 that's required to serve the load, not necessarily all  
22 of its allocated fixed costs within a cost of service  
23 study. Because clearly based on the parity ratios on  
24 the page that we're talking about, a parity ratio below  
25 one would mean that they're paying less than their fully

OSHIE/PILIARIS

1 18.1 percent respectively. Is that correct?

2 A. Between the ~~birth~~ test year and the period  
3 ending June 2016, that's correct. ERF

4 Q. Now, you testified here in the hearing room  
5 today that all of the sales reductions were all the  
6 result of conservation measures?

7 A. I have no knowledge as to what the basis for the  
8 reductions are.

9 Q. Turning back to Table 13 -- excuse me. So let  
10 me -- strike that, please.

11 The purpose of decoupling, is it not, is to  
12 reduce the Company's resistance to the implementation of  
13 conservation resources; is that correct?

14 A. That's one way of putting it. Generally  
15 speaking, the Commission has referred to that as a  
16 throughput incentive.

17 Q. So said another way, the purpose of decoupling  
18 is to suppress -- or reduce the Company's resistance to  
19 the implementation -- or excuse me, to suppress the  
20 Company's natural objective to increase throughput, also  
21 known as sales?

22 A. The Company would generally prefer to refer to  
23 it as the removal of a disincentive to do what you're  
24 describing.

25 Q. Now, in operation, the decoupling mechanism is

PEPPLE/PILIARIS

1 Q. Does the fact that Schedule 46 is an  
2 interruptible schedule have any impact on how decoupling  
3 applies? open to it if

4 A. ~~Not~~ as currently proposed. But the Company is  
5 ~~open to if~~ the Commission thought it preferable to  
6 breaking up 46 from 49 as standalone decoupling groups.

7 Q. Would you agree that separating Schedules 46 and  
8 49 into their own group is likely to increase the level  
9 of cost shifting among customers within this new  
10 decoupling group?

11 A. Can you just repeat the question so I make sure  
12 I understood what you said?

13 Q. Sure. If Schedules 46 and 49 comprise their own  
14 decoupling group as opposed to where they are now as  
15 part of an aggregate nonresidential group, would you  
16 agree that there is likely to be more cost shifting  
17 among the customers within Schedule 46 and 49 in this  
18 decoupling group as compared to what it is today?

19 MS. CARSON: I'm going to object. It's not  
20 clear if we're talking about 46 and 49 together as one  
21 group or separate as two different groups.

22 MR. PEPPLE: I'm talking about them together  
23 as one group.

24 THE WITNESS: I share my counsel's confusion  
25 here. Are we going from the current, which includes

PEPPLE/PILIARIS

1 schedules, for example, 24 and 25 and then 40, 46 and 49  
2 as a group, moving from that paradigm to what we've  
3 proposed, which is to break those up, create a new group  
4 with only 40, 46 and 49?

5 Q. (BY MR. PEPPLE) But ignore 40 for now. Assume  
6 that 40 is gone.

7 A. Okay.

8 Q. So yes, compared to currently --

9 A. Pulling them apart, is there cost shifting, is  
10 your question?

11 Q. Correct.

12 A. No, because you're resetting the baseline when  
13 you do this. So you're actually setting an allowed  
14 revenue per customer for the new groups based on their  
15 cost of service.

16 Q. Correct. I guess my question is going forward  
17 from then. So would you agree -- I'll back up.

18 Would you agree that there's some level of cost  
19 shifting among different rate classes currently going on  
20 in the nonresidential customer class?

21 A. I would say generally speaking, yes,  
22 unfortunately. And that was one of the principal  
23 drivers for why the Company proposed the new groupings  
24 that it did. It was the existing ~~groupings groups~~  
25 ~~together customers~~ that are weather-sensitive with

PEPPLE/PILIARIS

1 to characterize it. That's how I would regard it under  
2 these circumstances.

3 Does that address your concern to some  
4 extent?

5 MR. STEELE: Yes, Your Honor.

6 JUDGE MOSS: Let's go ahead and use it for  
7 the convenience of all assembled. Go ahead.

8 MR. PEPPLE: Thank you, Your Honor.

9 Q. (BY MR. PEPPLE) So as was just discussed, this  
10 is a data request that PSE issued to ICNU asking ICNU to  
11 clarify exactly what you've testified to, how the  
12 transition of these customers out of the decoupling  
13 mechanism would be handled in Mr. Gorman's proposal.

14 Do you agree with that?

15 A. Yes.

16 Q. Did you review this response before you prepared  
17 your rebuttal testimony?

18 MS. CARSON: I believe this response is  
19 dated after the rebuttal testimony. Oh, sorry, looking  
20 at the wrong one.

21 JUDGE MOSS: It was July 19th, apparently.

22 MS. CARSON: Okay.

23 THE WITNESS: I believe I probably did. I  
24 don't recall specifically, but I would imagine if it  
25 came ~~it~~ on the 19th of July, I probably looked at it

PEPPLE/PILIARIS

1 before I filed testimony.

2 Q. (BY MR. PEPPLE) So maybe I could just ask you  
3 to review it and identify whether this provides enough  
4 information to -- what other information would PSE need?

5 A. Again, the request asks specifically for a  
6 spreadsheet, and there's a lot of details underneath.  
7 For example, how to allocate when you remove a schedule  
8 from -- or schedules from decoupling, there are lots of  
9 different ways to allocate whatever residual amounts or  
10 deferrals or earnings or whatnot. And there may not be  
11 necessarily agreement as to how best do that.

12 So our request is for ICNU to provide their  
13 proposal as to how best to do that. And what we got  
14 back was fairly generic, not particularly helpful, at  
15 least from my standpoint. I couldn't take this and turn  
16 around and say exactly that I -- well, ~~unless I was~~ that  
17 100 percent confident that this was what ICNU or any  
18 other party for that matter would agree to.

19 Q. So could you turn to Page 8 of your rebuttal  
20 testimony.

21 A. I'm there.

22 Q. So in the middle of this page on Line 9, you  
23 note that Staff and Public Counsel did not provide  
24 exhibits showing exactly how their alternative  
25 decoupling proposal would work in practice. And then in

LIOTTA/PILIARIS


1 effective system, I'm afraid.

2  
3 CROSS-EXAMINATION

4 BY MS. LIOTTA:

5 Q. Good afternoon, Mr. Piliaris. I only have a few  
6 questions.

7 A. Good afternoon.

8 Q. I'd like to refer you to your rebuttal  
9 testimony. Do you have that? It's Exhibit 46-TC. 

10 A. I do.

11 Q. Okay. If you could turn to Page 18,  
12 specifically Line 7 through 9.

13 A. I'm there.

14 Q. There you assert that the Commission's policy  
15 statement on decoupling expected that all customers  
16 would be included in the decoupling mechanism; correct?

17 A. I wouldn't -- that's a bit stronger than what I  
18 intended, if that's the way it came across. What I  
19 intended to say or communicate is that the general  
20 preference of the Commission was that all customers  
21 would be included, but they were open to other  
22 possibilities on a case by case basis.

23 Q. Okay. And can you confirm that you were  
24 referring to the Commission's policy statement from  
25 Docket UE-100522?



GAFKEN/PILIARIS

1           A.     Correct.  And that's relative.  I mean, the  
2     3 percent we picked because that seemed to be a number  
3     that was out there.  On the gas side, the PGA, the  
4     purchase gas adjustment rates, they can increase by  
5     five-fold that amount in any given year.  So raising a  
6     cap on the gas residential customers from 3 to 5 percent  
7     I don't think would constitute rate shock given what  
8     they have experienced, both going up and going down  
9     through their PGA-related component of their bills.

10          Q.     Would you please turn to page -- I'm really  
11     hoping this is the right page number.  Would you please  
12     turn to Page 14 of your rebuttal testimony, JAP-46CG. CT  
13     And beginning at Line 5, you refer to FEA's proposal to  
14     replace the current soft caps with hard caps.  And you  
15     indicate that such a change would dilute the efficacy of  
16     the decoupling mechanism; correct?

17          A.     Correct.

18          Q.     From PSE's perspective, is it fair to say that a  
19     hard cap would result in potential permanent loss of  
20     revenue when it comes to the utility?

21          A.     Not necessarily.  That's kind of the point.  I  
22     think when we had discussed in prior proceedings about  
23     the value or the tradeoffs between a soft and a hard  
24     cap, I think the Commission noted that with a hard cap  
25     the utility, the throughput incentive, actually gets

GAFKEN/PILIARIS

1 A. Could be fairly significantly lower.

2 Q. And this lower amount being collected through  
3 decoupling would take some pressure off the rate caps,  
4 wouldn't it?

5 A. But it would also frustrate the utility's  
6 ability to actually earn a return. And the reason being  
7 is that we were taking -- for our production costs we  
8 look out into the rate year and we ~~pro forma~~ amounts to  
9 represent what we think we're going to need to collect  
10 in the rate affected period. proform

11 The way the Company has proposed the mechanism  
12 on a per customer basis, we brought that dollar amount,  
13 the whole dollar amount down based on the difference in  
14 customer counts between the test year and the rate year  
15 with the expectation that when you brought the revenues  
16 down to the test year levels, that they would grow back  
17 out to the rate year levels, assuming your forecasts  
18 were accurate.

19 What we understand Public Counsel's position is,  
20 or perhaps not, it could be clarified if not, is that if  
21 you bring it back down to test year levels and you hold  
22 it fixed, you have no ability to get back to the rate  
23 year amount that you already agreed was the amount  
24 necessary in the rate affected period to recover your  
25 costs.

FFITCH/PILIARIS

1 deferrals, particularly on the gas side. Then again, it  
2 didn't contemplate back-to-back historically warm, and  
3 by historic I mean very historic terms, that the warmth  
4 of the winters and reduction in ~~levels~~ that we actually  
5 experienced.

loads

6 Q. And isn't it true that the reassurance in that  
7 case was given to the Commission and all the parties to  
8 address a desire really to design a mechanism that would  
9 have modest rate increases and to address a concern that  
10 the lack of regulatory review of the rate increases  
11 would otherwise be kind of worrisome, but again, the  
12 representation was, is there going to be modest size  
13 small rate increases?

14 MS. CARSON: Object to the form of the  
15 question. It's argument or speech making.

16 JUDGE MOSS: I think you can answer that  
17 question.

18 THE WITNESS: Again, the Company did not  
19 expect the size of the deferrals. They were larger than  
20 we had anticipated.

21 Q. (BY MR. FFITCH) Why shouldn't the Commission  
22 view this problem of larger than expected deferrals as  
23 evidence that this particular form of decoupling is  
24 problematic and that it might want to consider looking  
25 at alternatives as opposed to simply increasing the

FFITCH/PILIARIS

1 caps?

2 A. I think if we had a mechanism that didn't  
3 actually have a rate plan component to it in addition,  
4 perhaps that would be more valid. But right now the  
5 rate plan actually was a contributing factor to our  
6 inability to flow through costs, because we had step  
7 rate increases ~~and~~ <sup>in</sup> allowed revenue per customer each  
8 year which ate into our capacity to deal with the  
9 deferrals that we ultimately experienced.

10 So absent the rate plan increases, the issues  
11 would not be as great, I don't think.

12 Q. Well, except that you're now predicting that  
13 it's in fact likely or highly likely that rate  
14 increases, the deferral amounts will exceed 3 percent --

15 A. Not necessarily.

16 Q. -- are you not?

17 A. Well, the point is, particularly on the gas  
18 residential, is we have an existing balance, and we need  
19 to do something with that balance. My understanding in  
20 my conversations with the Commissioners in previous  
21 Schedule 142 filings is they've been growing concerned  
22 about the magnitude of those deferrals. And so we could  
23 continue on with 3 percent and unwind those deferrals  
24 over a much longer period of time and introduce  
25 potentially intergenerational concerns, or we could step